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AZ CORP COMMISSION
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Docket #(s): W-02467A-14-0230

Arizona Corporation Commission

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Exhibit #: A1, A2, A5, A6, SI-S9



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To: Docket Control

Date: February 17, 2016

Re: Granite Mountain Water Company
W-02467A-14-0230
Volume II taken on 02-11-16

STATUS OF ORIGINAL EXHIBITS

EXHIBITS FILED WITH DOCKET CONTROL
(See attached exhibit index for all admitted exhibits)

EXHIBIT LATE FILED

Granite Mountain (A Exhibits)

A-3 and A-4

Copy to:

Teena Jibilian, ALJ
Bridget Humphrey, Esq. - Staff
Craig Marks, Esq. - Applicant

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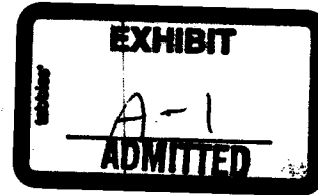
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
ROBERT BURNS
DOUG LITTLE
TOM FORESE



IN THE MATTER OF THE APPLICATION
OF GRANITE MOUNTAIN WATER CO.,
INC., FOR A RATE INCREASE.

DOCKET NO. W-02467A-14-0230

**NOTICE OF FILING REBUTTAL
TESTIMONY**

Granite Mountain Water Co., Inc. ("Granite Mountain") hereby provides notice of filing its rebuttal testimony in the above-captioned case.

Respectfully submitted on August 17, 2015, by:

A handwritten signature in cursive script, reading "Craig C. Marks".

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Original and 13 copies filed
on August 17, 2015, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Copies mailed on August 17, 2015 to:

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF
GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL OF A RATE INCREASE

DOCKET NO. W-02467A-14-0230

**REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
AUGUST 17, 2015**

**REBUTTAL TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
August 17, 2015**

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EXECUTIVE SUMMARY

Mr. Jones responds to the direct testimony of the Arizona Corporation Commission's Utilities Division Staff, including their positions regarding rate base, operating income, cost of capital and rate design, focusing on the points of disagreement between Staff and Granite Mountain Water Company, Inc. Additionally, Mr. Jones sponsors the Company's rebuttal revenue requirement and updated schedules provided with this testimony as *Exhibit RLJ-RB2*.

The proposed revenue requirements and associated rate increases are summarized as follows:

| | <u>Revenue Requirement</u> | <u>Revenue Increase</u> | <u>% Increase</u> |
|---------------------|----------------------------|-------------------------|-------------------|
| Granite Application | \$181,668 | \$64,221 | 55.48% |
| Staff Direct | \$185,719 | \$68,399 | 58.30% |
| Granite Rebuttal | \$177,270 | \$59,950 | 51.10% |

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Ray L. Jones. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, AZ 85255, and my business phone is (623) 341-4771.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

A. I am testifying on behalf of the Applicant Granite Mountain Water Company, Inc. ("Granite" or "Company").

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the owner and principal of ARICOR Water Solutions LC ("ARICOR"), a consulting firm providing services to the water and wastewater utility industry.

Q. WHAT WAS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND BEFORE GOING TO WORK FOR ARICOR?

A. I began my working career with Citizens Utilities Company ("Citizens") in 1985 as a Staff Engineer for the Maricopa County water and wastewater division. I was employed at Citizens for 17 years, ascending to Vice President and General Manager for the Arizona water and wastewater operations. In 2002, American Water ("American") purchased the water and wastewater assets of Citizens, and I joined American as the President of Arizona-American Company. I left American in 2004 to start ARICOR.

I received a Bachelor of Science in Civil Engineering in 1985 from the University of Kansas, and a Master of Business Administration in 1991 from Arizona State University.

I am a Registered Professional Engineer in Arizona and California and a Grade 3 Certified Operator in Arizona for all four water and wastewater classifications. I

1 specialize in water resource issues, regulatory strategies, rate case filings and water and
2 wastewater utility management and operations.

3 In addition to my consulting practice, I am the Executive Director of the Water Utilities
4 Association of Arizona ("WUAA"). Founded in 1961, WUAA is a non-profit association
5 representing Arizona's private, regulated water and wastewater utilities.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?**

7 A. In my time with Citizens and American, I prepared or assisted in the preparation of
8 multiple filings before the Arizona Corporation Commission ("Commission"), including
9 rate applications and certificate of convenience and necessity ("CC&N") filings. Since
10 starting ARICOR, I have prepared several filings and assisted in the preparation of
11 several more filings before the Commission, including rate applications and CC&N
12 filings. I have also provided testimony in all of these cases before the Commission. A
13 summary of my regulatory work experience is included in my resume attached hereto as
14 *Exhibit RLJ-RB1*.

15 **II PURPOSE OF TESTIMONY**

16 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY FILED BY STAFF IN**
17 **THIS CASE?**

18 A. Yes, I have reviewed the testimony of Teresa B. Hunsaker and Dorothy Hains.

19 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

20 A. I will respond to the direct testimony of Staff, including their positions regarding rate
21 base, operating income, cost of capital and rate design, focusing on the points of
22 disagreement between Staff and the Company. Additionally, I will sponsor the

Company's rebuttal revenue requirement and updated schedules provided with this testimony as *Exhibit RLJ-RB2*.

III PRELIMINARY STATEMENTS AND GENERAL RESPONSE TO STAFF TESTIMONY AND POSITIONS

Q. HOW ARE THE COMPANY'S POSITIONS AND TESTIMONY IN THIS CASE INTERRELATED WITH THE POSITIONS AND TESTIMONY PRESENTED IN THE RATE APPLICATION OF THE COMPANY'S AFFILIATE, CHINO MEADOWS II WATER COMPANY ("CHINO")?

A. Granite and Chino are sister companies operated from a common office using common staff. In addition, a third much smaller company, Antelope Lakes Water Company ("Antelope") is affiliated with Granite and Chino and operated from the common office using common staff as well. As discussed by Staff witness Hunsaker, the position taken in one case can impact the position in the other case, particularly with respect to allocated common costs. For this reason the positions taken in both cases, in addition to being evaluated independently, must be evaluated as a whole and in consideration of the overall impact to the combined operations of Granite and Chino.

Q. WHAT IS THE COMPANY'S INITIAL REACTION TO STAFF'S TESTIMONY?

A. The Company thanks Staff for what is clearly a thorough evaluation of both Granite and Chino. Staff has done an excellent job of dealing with the complexity of the interrelation between the operations of Granite and Chino and presented positions in the cases that are mathematically consistent and complete across both of the rate filings. Staff's positions and proposed adjustments are presented in a detailed and understandable manner. Although the Company does not fully agree with all aspects of the various adjustments proposed by Staff, the Company believes the positions presented by Staff are in large part

1 reasonable. Therefore, the Company will accept most of Staff's proposed adjustments in
2 an effort to limit issues and demonstrate the Company's commitment to improving its
3 operations and meeting Staff's expectations concerning record keeping and cost
4 accounting.

5 **Q. WHAT ARE THE SIGNIFICANT OVERALL ISSUES THAT THE COMPANY**
6 **WOULD LIKE TO ADDRESS?**

7 A. The Company's most significant overall concern is with Staff's proposed allocation of
8 common costs between Chino, Granite, and Antelope. The Company has historically
9 used customer counts as a basis of allocation. Staff is proposing to move to a more
10 complex 4-factor common cost allocation method that shifts costs and revenue away from
11 Chino, the largest and most significant of the three affiliates. Staff's proposal
12 significantly shifts costs and revenue to Granite and to a lesser degree to Antelope.

13 Both Granite and Antelope are new, small companies with, relative to Chino, fewer
14 customers, higher levels of plant investment and, in the case of Granite, higher rates.
15 Shifting costs to Granite—a company with fewer customers and significantly higher rates
16 than Chino—will create revenue instability both for Granite and the water companies as a
17 whole. Additionally, Granite is facing a significantly higher percentage increase in these
18 interrelated cases. Accordingly, it is very likely that Granite will under-collect its
19 authorized revenue by a significant magnitude. If the authorized revenue for Granite
20 cannot be collected, common expenses may not be covered, which would harm the
21 operations of both Chino and Granite.

22 It is also concerning that Staff's proposal would move the companies contrary to industry
23 trends. The Commission and industry are exploring ways to encourage consolidation and
24 to make it easier for small water companies to be acquired by larger, better capitalized

1 companies. Unfortunately, the cost shift embedded in Staff's recommendation would
2 discourage consolidation or acquisition. The two companies, Chino and Granite, would
3 be moved farther apart in terms of rates, increasing the complexity of any future
4 consolidation or acquisition.

5 **Q. HOW SIGNIFICANT IS THE CHANGE IN STAFF'S PROPOSED COST**
6 **ALLOCATION?**

7 A. It is very significant. The Company has historically used customer counts as the basis of
8 most common cost allocations and currently uses customer count as the only method of
9 allocating common costs. The resulting current common cost allocation is 88% to Chino
10 and 12% to Granite. In contrast Staff's proposed allocation is only 70.12% to Chino with
11 26.93% going to Granite and 2.95% going to Antelope. This change in allocation shifts a
12 very significant \$49,006 in common costs away from Chino, where they are far more
13 likely to be collected, to Granite and Antelope where they are almost certain to be under-
14 collected and in the case of Antelope, not collected at all. The cost shift (\$40,921 to
15 Granite) is so severe that the increase recommend by Staff for Granite is actually larger
16 than what the Company originally requested, even though Staff has disallowed
17 substantial costs and rate base proposed by Granite. In contrast, Staff recommends no
18 increase at all for Chino.

19 The Company will present a more balanced, simplified approach to cost allocation that
20 moves incrementally toward Staff's allocation while preserving Granite's ability to
21 recover plant investment and providing both Chino and Granite reasonable opportunities
22 to recover the common costs related to the operation of both companies.

1 Further, the Company's cost allocation proposal allows the Company to avoid significant
2 and damaging regulatory lag (discussed below), while still raising rates less than
3 proposed by Staff

4 **Q. ARE THERE OTHER AREAS OF DISAGREEMENT WITH STAFF THAT YOU**
5 **WILL ADDRESS IN YOUR REBUTTAL TESTIMONY?**

6 A. There are two significant rate base disagreements. The most significant is related to the
7 inclusion of post-test year plant in rate base. The Company has committed significant
8 funds to construct a tank to benefit existing customers as ordered by the Commission.
9 Although not yet complete, the CWIP balance is substantial and recovery of the cost is
10 appropriate. The second concerns Staff's recommendation to disallow portions of its
11 plant due to records being destroyed when the Company's offices were destroyed by fire.
12 The loss of plant records was beyond the Company's control, so all documented plant
13 costs should be allowed in its rate base. The only significant issue regarding expenses,
14 other than the cost allocation issue previously discussed, is a partial disagreement with
15 the disallowance of a portion of Mr. Levie's salary. The remaining differences are
16 largely the fall-out impacts from the above discussed disputes.

17 **IV REBUTTAL REVENUE REQUIREMENT**

18 **Q. WHAT IS GRANITE'S REBUTTAL REVENUE REQUIREMENT?**

19 A. Granite's rebuttal revenue requirement is shown on Schedule RLJ-1 Rebuttal. Granite is
20 now requesting a revenue increase of \$59,950, an increase of 51.10% over adjusted test
21 year revenues of \$117,370. The reduction in revenue requirement, as compared to the
22 Company's original filing, is attributable to the Company adopting, either in whole or in
23 part, a number of rate base and expense adjustments recommended by Staff.

1 **Q. COULD YOU SUMMARIZE GRANITE'S AND STAFF'S REVENUE**
2 **REQUIREMENT POSITIONS?**

3 A. Yes. The proposed revenue requirements and associated rate increases are summarized
4 as follows:

| | <u>Revenue Requirement</u> | <u>Revenue Increase</u> | <u>% Increase</u> |
|---------------------|----------------------------|-------------------------|-------------------|
| Granite Application | \$181,668 | \$64,221 | 55.48% |
| Staff Direct | \$185,719 | \$68,399 | 58.30% |
| Granite Rebuttal | \$177,270 | \$59,950 | 51.10% |

5
6
7
8
9 **V COMPANY'S REBUTTAL ADJUSTMENTS**

10 **A RATE BASE ADJUSTMENTS**

11 **Q. HAS THE COMPANY UPDATED ITS RATE BASE POSITION?**

12 A. Yes. As discussed below and presented in Schedule RLJ-2, the Company has updated is
13 position on rate base.

14 **Accepted Rate Base Adjustments**

15 **Q. WHICH RATE BASE ADJUSTMENTS PROPOSED BY STAFF HAS THE**
16 **COMPANY ACCEPTED?**

17 A. The Company accepts Staff Adjustments No. 2 and No. 4 and rejects the remaining Staff
18 Adjustments.

19 **Staff Rate Base ADJ No. 1 – Post-Test Year Plant**

20 **Q. WHAT ARE THE DIFFERENCES BETWEEN STAFF AND THE COMPANY**
21 **REGARDING POST-TEST YEAR PLANT?**

22 A. Based on the Company's rebuttal position there are five differences summarized as
23 follows:

- 1 • Staff has allocated \$1,196 for a well meter installed at Well No. 6 to Plant
2 Account 334, Meters and Meter Installations. The NARUC definition of Account
3 334, Meters and Meter Installations specifically excludes “meters for recording
4 the output of a supply or treatment plant.” The Company has included the well
5 meter cost in Plant Account 311, Pumping Equipment which specifically includes
6 “measuring devices.”
- 7 • Staff’s adjustment contains a mathematical error that omits \$402.50 from the
8 Plant Account 311 total.
- 9 • The Company and Staff disagree on the value of the easement, structures and well
10 purchased for Well No. 6. The total difference in positions is \$37,800.
- 11 • The most significant difference is related to the cost for Tank No. 3, a 50,000
12 gallon storage tank, currently under construction. The Company proposes to
13 include \$99,830 in cost for Tank No. 3. Staff does not include the cost of the tank
14 in post-test year plant.
- 15 • Lastly, the Company has included the cost of replacing the pump at Well No. 4 in
16 the amount of \$9,449 in post-test year plant. This replacement was completed in
17 August of 2014. The Company has also included a companion adjustment for
18 post-test year retirement of the replaced pump in the amount of \$4,680¹.
19 Documentation of the cost for this item is provided in *Exhibit RLJ-RB3*.

20 **Q. WHAT AMOUNT DOES THE COMPANY SUPPORT FOR THE EASEMENT**
21 **STRUCTURES AND WELL PURCHASED FOR WELL NO. 6?**

¹ \$4,680 reduction to plant in service and \$4,680 reduction to accumulated depreciation.

1 A. The Company proposes a cost of \$75,000, which is the actual cost paid for the easement.
2 The amount is \$5,000 less than the value established by an independent appraisal
3 conducted by Huck Appraisal Office ("Appraisal"). A copy of the Executive Summary
4 from the Appraisal is attached as *Exhibit RLJ-RB4*.

5 **Q. HOW DID THE APPRAISAL BREAK DOWN THE COSTS?**

6 A. The appraisal values the easement, including the structures and improvements located
7 within the easement property at a value of \$80,000 as of May 29, 2014, the day the
8 easement was recorded in the Yavapai County Recorder's office.

9 The breakdown of the valuation is as follows:

| | | |
|----|-----------------|----------|
| 11 | Land Value | \$46,000 |
| 12 | Structures | 34,705 |
| 13 | Well | 16,000 |
| 14 | Depreciation | (16,344) |
| 15 | Indicated Value | \$80,361 |
| 16 | | |
| 17 | Rounded To: | \$80,000 |

18 **Q. HOW DID THE COMPANY ALLOCATE THE \$75,000 IN COSTS TO PLANT**
19 **ACCOUNTS?**

20 A. The Company Allocated the Costs as follows:

| | | |
|----|---|---------------------|
| 21 | Account 303 – Land and Land Rights | \$46,000 |
| 22 | Account 304 – Structures and Improvements | 13,000 ² |
| 23 | Account 307 – Wells and Springs | 16,000 |
| 24 | Total Cost | \$75,000 |

25 **Q. WHAT IS THE STATUS OF CONSTRUCTION OF TANK NO. 3?**

26 A. The tank is under construction and the Company estimates that it is currently 80%
27 complete. The Company expects the tank to be completed and in service in the next
28 couple of months. To date the Company has expended \$81,080 on construction of the

² \$34,705 structure value, less \$16,344 depreciation, less \$361 rounding, less \$5,000 paid below appraisal.

1 tank with an additional \$18,750 committed to complete the tank. The Company has
2 included \$99,830 in post-test year plant for this tank. Documentation of the \$81,080 in
3 CWIP is attached as *Exhibit RLJ-RB5*.

4 **Q. WHY IS THE COMPANY REQUESTING RECOVERY FOR A TANK THAT IS**
5 **NOT YET COMPLETE?**

6 A. The Company has expended substantial sums to build the tank and expects to expend a
7 significant additional sum to complete the tank. A small Class E water utility like
8 Granite will experience significant regulatory lag if the investment is not included in
9 rates. For a large Class A water utility with a far larger rate base, the regulatory lag to
10 recover the cost of one water tank would be relatively immaterial. As I will discuss, the
11 impact of the associated regulatory lag on a small Class E water utility like Granite will
12 destroy any chance the Company has to earn a fair return on its investment. The tank will
13 be complete and serving customers during the period rates in this case are in effect; it
14 should be included in the Company's rate base.

15 **Q. HAS THE COMPANY BEEN PREVIOUSLY BEEN HARMED BY A SIMILAR**
16 **SITUATION CONCERNING CONSTRUCTION OF A DIFFERENT TANK?**

17 A. Yes. The Company placed Tank No. 2 in service in September of 2010. This was the
18 same month that its current rates were effective based on Decision No. 71869 issued on
19 August 31, 2010. The tank was completed at a cost of \$100,005 and is to this day not
20 reflected in the Company's revenue requirement. Through June 30 of this year, the
21 Company has failed to recover \$15,460 of depreciation expense and approximately
22 \$43,000 in return on its investment, for a total shortfall of over \$58,000. At this point,
23 due to regulatory lag, the best return on this investment that the Company could earn is

1 about 4.5%, assuming an underlying 10% return on a going-forward basis. The Company
2 simply cannot afford to endure this type of financial hardship a second time.

3 **Staff Rate Base ADJ No. 3 – Unsupported Plant**

4 **Q. WHY DOES THE COMPANY OPPOSE STAFF RATE BASE ADJUSTMENT**
5 **NO. 3.**

6 A. Staff Adjustment No. 3 would remove 10% of the cost of \$96,432 of plant in service
7 from rate base by increasing the Company's CIAC balance by \$9,643. This reduction to
8 rate base is reduced by intervening amortization of the CIAC balance. The Company has
9 supported this plant through accounting records and there is no dispute that the amount
10 represents plant in service. The Company cannot provide detailed invoices for the plant
11 because all of the Company's records were destroyed when the Company's offices were
12 destroyed by fire. Despite the Company's best efforts, the Company was only able to
13 obtain duplicate support for some of its plant. Unfortunately, the Company was unable to
14 obtain source documentation for this portion of the destroyed records because vendors
15 were out of business or had purged their records. The fire was an event not within the
16 Company's control and it has made all reasonable efforts to reconstruct its plant records.

17 The fire was damaging enough to the Company. Further damaging the Company
18 financially by disallowing rate base would be punitive and should be rejected.

19 **Staff Rate Base ADJ No. 5 – Accumulated Depreciation**

20 **Q. WHY DOES THE COMPANY DISAGREE WITH STAFF'S RATE BASE**
21 **ADJUSTMENT NO. 5?**

22 A. The company has updated its Accumulated Depreciation Adjustment to adopt Staff's
23 methodology in reconstructing the Company's accumulated depreciation balance. The

1 difference is entirely attributable to the post-test year retirement associated with the post-
2 test year replacement of Well No. 4 pump.

3 **Staff Rate Base ADJ No. 6 – Working Capital**

4 **Q. WHY DO THE COMPANY AND STAFF DISAGREE ON THE WORKING**
5 **CAPITAL ALLOWANCE?**

6 A. The difference is minor and due entirely to differences in adjusted test year expenses
7 discussed in the following section of testimony. The Company has updated its working
8 capital allowance to reflect its rebuttal position.

9 **Summary of Rate Base Differences**

10 **Q. WHAT ARE THE COMPANY'S AND STAFF'S CURRENT RATE BASE**
11 **POSITIONS?**

12 A. Staff is recommending a rate base of \$431,139 and the Company is recommending a rate
13 base of \$583,926, a difference of \$152,787.

14 **B INCOME STATEMENT ADJUSTMENTS**

15 **Q. HAS THE COMPANY UPDATED ITS INCOME STATEMENT POSITION?**

16 A. Yes. As discussed below and presented in Schedule RLJ-3, the Company has updated its
17 position on income statement items. We accept most adjustments but oppose others.

18 **Accepted Income Statement Adjustments**

19 **Q. WHICH INCOME STATEMENT ADJUSTMENTS PROPOSED BY STAFF HAS**
20 **THE COMPANY ACCEPTED?**

21 A. The Company accepts Staff Adjustments No. 1, No. 2, No. 3, No. 4, No. 5, No. 6, and
22 No. 7.

Staff Operating Income Adjustment No. 8 - Allocations

Q. WHAT ASPECTS OF STAFF INCOME STATEMENT ADJUSTMENT NO. 8 DOES THE COMPANY OBJECT TO?

A. Staff Rate Base Adjustment No. 8 is a complex adjustment with multiple parts. The Company appreciates the work Staff put into the adjustment and contests only two very specific aspects of the adjustment. The Company disagrees with the full amount of Staff's disallowance of a portion of Mr. Levie's salary, and as previously discussed, the Company proposes a more balanced and simplified approach to cost allocation between Granite and Chino.

Q. WHAT ASPECT OF MR. LEVIE'S SALARY DISALLOWANCE DOES THE COMPANY WISH TO ADDRESS?

A. The Company objects to the deduction of 33% of total monthly hours as detailed on Line 14 of Schedule TBH CM-20g. The Company believes this deduction is unnecessary because the salary paid to Mr. Levie of \$37,700 already includes a deduction for Mr. Levie's time away from the office. As noted by Ms. Hunsaker, Mr. Levie is only a half-time employee of Chino and Granite. However, Mr. Levie is a half-time employee because he spends time away from the office and managing his other businesses. To remove costs a second time as recommended by Staff would be duplicative.

The Company proposes a total salary for Mr. Levie of \$33,027. This amount is arrived at by taking the actual salary paid to Mr. Levie of \$37,700 and deducting the \$4,673 deduction for duplication of effort with the Operations Manager as recommended by Staff. The Company's proposed pre-allocation salary of \$33,027 is a very reasonable salary for the Company President, who serves as the chief executive and legal counsel for

1 both Chino and Granite, and should be adopted by the Commission. The resulting salary
2 allocation to Granite for Mr. Levie is \$6,440.

3 **Q. WHAT IS THE COMPANY'S POSITION ON COST ALLOCATION?**

4 A. As previously discussed, the Company is very concerned about the abrupt cost shift to
5 Granite from Chino that would result from Staff's recommended 4-factor cost allocation.
6 Granite is a new, small company that is struggling to grow and does not produce
7 sufficient revenue to provide an adequate return on the relatively high plant investment.
8 In contrast, Chino is an established, mature company that provides 75% of the combined
9 revenue of Chino and Granite. Shifting operating costs to Granite from Chino through
10 aggressive allocation of costs will destabilize the revenue of both companies and
11 negatively impact the common operation's ability to cover its common expenses and
12 ultimately harm the operations of both Granite and Chino.

13 **Q. ARE THERE SPECIFIC CONCERNS WITH THE 4-FACTOR USED BY STAFF?**

14 A. The Company's primary concern is with the result of the proposed allocation rather than
15 the methodology itself. The Company does find the factors used to be unusual. I have
16 never seen Revenues or Sales (gallons pumped) used in a 4-factor allocation.
17 Additionally, the use of net plant, rather than gross plant is, in my experience, contrary to
18 common practice and particularly problematic for Chino with its mature, depreciated rate
19 base. Use of these four atypical factors introduces needless complexity for a small
20 organization that needs simplicity to be successful.

21 **Q. WHAT IS THE SPECIFIC ISSUE WITH THE USE OF NET PLANT?**

22 A. As briefly explained earlier, Chino's authorized depreciation rates are clearly in excess of
23 the actual physical depreciation of its plant. This has caused Chino's net plant balance to
24 be unrealistically low and not representative of the scope of the Company's operation.

1 Gross plant would be a much better measure of the relative scope of Chino's operation.
2 However, even gross plant falls somewhat short of presenting an accurate portrayal of
3 Chino. This is because Chino was originally acquired by Mr. Levie through a bankruptcy
4 sale and, pursuant to Commission orders, the Company's books reflect the discounted
5 purchase price rather than the actual original cost of the original plant in service. Chino's
6 aging plant further distorts the relationship between the two companies. Chino's older
7 plant requires significant staff effort as compared to Granite's relatively new plant. This
8 reality is not captured when comparing even gross plant balances. So, it would also be
9 inappropriate to rely too heavily on gross plant as an allocation factor, let alone net plant.

10 **Q. ARE THERE SPECIFIC CONCERNS WITH ALLOCATION COSTS TO**
11 **ANTELOPE?**

12 A. Yes. Antelope is a very small company with two customers and no possibility of any
13 near-term growth. The total revenues of Antelope in 2014 were \$612.97, barely enough
14 to pay the power bill and property taxes. Allocation of any costs to Antelope is
15 premature and, put plainly, will not be collected and will harm the combined operation of
16 the companies.

17 **Q. WHAT IS THE COMPANY'S PROPOSAL?**

18 A. The Company continues to believe that customer counts represent the simplest and most
19 accurate way for Granite to allocate costs and that customer counts should dominate any
20 cost allocation model between Chino and Granite. However, the Company acknowledges
21 that plant balances are traditionally used in cost allocation and in an effort to move
22 toward Staff's approach, proposes to include gross plant in the calculation. Specifically
23 the Company has used test-year customers, projected 2018 customers (five-year forward
24 looking), and gross plant to arrive at a cost allocation. The Company weights the

1 customer counts 2.5x each for a total customer count weighting of five times, compared
2 to gross plant which is given single weighting. The result is an allocation of 80.5% to
3 Chino and 19.5% to Granite. The Company proposes to use this allocation on a going-
4 forward basis beginning with 2016.

5 **Q. HAS THE COMPANY PREPARED WORKPAPERS SHOWING HOW THE**
6 **COMPANY'S TREATMENT OF MR. LEVIE'S SALARY AND ITS PROPOSED**
7 **COST ALLOCATION AFFECT STAFF'S OPERATING INCOME**
8 **ADJUSTMENT NO. 8?**

9 A. In order to provide simplicity and clarity, the Company has recalculated Staff Operating
10 Income Adjustment No. 8 using Staff's Excel workbook. The impacted Schedules are
11 TBH CM-20a, TBH CM-20c, TBH CM-20e, and TBH CM-20g. Copies of those
12 schedules as modified by the Company are attached as *Exhibit RLJ-RB6*.

13 **Depreciation Expense – Company ADJ IS-7 (Staff Income Statement ADJ No. 9)**

14 **Q. HAS COMPANY ADJUSTMENT IS-6 BEEN UPDATED?**

15 A. Yes. The Company and Staff are in agreement regarding depreciation expense
16 methodology with the difference in depreciation expense resulting from differing levels
17 of recommended post-test year plant (See Staff Rate Base ADJ No. 1), CIAC being
18 amortized due to the disagreement regarding Staff Rate Base ADJ NO. 3 and due to
19 formula errors in Staff Schedule TBH GM-21³.

³ Beginning with Plant Account 310, the depreciation expense calculation is using the depreciation rate for the plant account immediately above the current plant account.

1 **Q. WHAT ABOUT THE DIFFERENT POSITION ON DEPRECIATION RATES**
2 **FOR PLANT ACCOUNTS 311 AND 341?**

3 A. As is evidenced by the Company's near zero net plant balance for Plant Account 311, the
4 depreciation rate recommended by Staff and authorized by the Commission for Granite
5 for this account is obviously excessive and in excess of the actual physical depreciation
6 of the Company's pumping equipment. Since the Company has a very small net plant in
7 this account and therefore little depreciation expense regardless of the depreciation rate
8 used, in an effort to limit issues, the Company will drop its request to change the
9 depreciation rates for both Plant Account 311 and Plant Account 341.

10 **Property Tax – Company ADJ IS-8 – (Staff Income Statement ADJ No. 10)**

11 **Q. HAS COMPANY ADJUSTMENT IS-8 BEEN UPDATED?**

12 A. Yes. The Company and Staff are in near complete agreement regarding the methodology
13 for calculating property tax expense. In recognition of the Company's post-test-year
14 plant position, the Company has used zero for the CWIP balance in the property tax
15 calculation. This is the only difference in methodology and is responsible for the small
16 difference in Adjusted Test Year Property Tax Expense. Property Tax Expense is
17 included in the Gross Revenue Conversion Factor. Since the Company and Staff disagree
18 on their revenue recommendations the recommend property taxes at proposed rates are
19 different.

20 **Income Taxes ADJ IS-9 – (Staff Income Statement ADJ No.11)**

21 **Q. HAS COMPANY ADJUSTMENT IS-9 BEEN UPDATED?**

22 A. Yes. The parties' test-year income-tax-expense calculations disagree due to differing
23 positions on test-year expenses. In addition, the Company uses personal tax rates in
24 accordance with the Commission's policy pertaining to an income tax allowance for S-

1 Corps. Staff has instead utilized corporate income tax rates. Income Tax Expense is also
2 included in the Gross Revenue Conversion Factor. Since the Company and Staff disagree
3 on their revenue and expense recommendations the recommend income taxes at proposed
4 rates are different.

5 **VI RATE DESIGN**

6 **Q. HAS THE COMPANY PREPARED A RATE DESIGN TO SUPPORT ITS**
7 **REQUESTED INCREASE?**

8 A. Yes. The Company's proposed rate design is presented on Schedule RLJ-4. The rate
9 design keeps the current split of revenue from the base charge and the commodity
10 charges essentially unchanged. The percentage collected from the third tier is reduced
11 from 18.3% to 16.1%, moving incrementally toward industry recommendations and to
12 address revenue stability concerns related to the large increase. Although the Company
13 expects that it will not be able to fully collect its authorized revenue due to declining
14 sales, this rate design will promote revenue stability while encouraging conservation.
15 The Company has adopted the break-over points recommend by Staff for all meter sizes.
16 Lastly, to avoid unnecessary complexity, the Company has not proposed separate rates
17 for small commercial meters.

18 **Q. DO YOU HAVE ANY CONCERNS WITH STAFF'S PROPOSED RATE**
19 **DESIGN?**

20 A. Yes I do. Since Staff will be updating their revenue requirement and rates in response to
21 this rebuttal testimony, I will only briefly address my concerns at this time. The primary
22 concern with Staff's rate design is that it will promote revenue instability and impair the
23 Company's ability to collect its authorized revenue. Staff's rate design decreases the
24 percentage of revenue collected from the base charge from 46.8% to 41.0%. This

1 revenue is shifted to both the second and third tier rates with the third tier percentage of
2 revenue collected increasing from 18.3% to 20.8%. This shift of revenue from base
3 charges to third tier revenue will undoubtedly exacerbate expected declining sales and
4 cause the Company to collect less than its authorized revenue.

5 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT WITH RESPECT TO**
6 **SERVICE CHARGES?**

7 A. The Company has adopted Staff's proposed Service Charges where there was previously
8 a difference in position. However, the Company currently has and is recommending a
9 Meter Re-Read (If Correct) charge of \$15.00 that Staff appears to have omitted from its
10 recommendation. The Company and Staff are in agreement on recommended Service
11 and Meter Installation Charges.

12 **VII ASSESSMENT OF PENALTIES – FREE AND DISCOUNTED WATER**

13 **Q. WHAT DID THE COMMISSION ORDER THE COMPANY TO DO IN**
14 **DECISION NO. 71869 WITH RESPECT TO FREE AND DISCOUNTED**
15 **WATER?**

16 A. The Commission stated:

17 IT IS FURTHER ORDERED that Granite Mountain Water Company, Inc. shall
18 immediately cease providing water without charge and shall immediately cease
19 providing water at a discounted rate.

20 **Q. DID THE COMPANY COMPLY WITH THE COMMISSION'S ORDER?**

21 A. Yes, the Company did comply with the Commission's Order. As discussed in Decision
22 No. 71869, the Company was providing free (unbilled) water and discounted water to Mr.
23 Daniel Levie for certain properties pursuant to the terms of an easement agreement.
24 Additionally, the Company was not reading and billing an additional seven meters on its
25 system. Subsequent to the issuance of Decision No. 71869, the Company began billing,

1 at tarified rates, Mr. Daniel Levies' two accounts and all seven of the unbilled accounts.
2 The Company no longer provides water without charge or at a discounted rate and has
3 complied with Decision No. 71869.

4 **Q. SHOULD THE COMPANY BE PENALIZED AS RECOMMENDED BY STAFF?**

5 A. No. The Company is in compliance with Decision No. 71869 and should not be
6 penalized.

7 **Q. OKAY MR. JONES, BUT WHAT ABOUT OTHER CONCERNS RAISED BY**
8 **STAFF IN THEIR TESTIMONY?**

9 A. They are valid concerns that the Company takes seriously. The Company has acted to
10 correct the collection problem with the four accounts identified by Staff. All four of the
11 accounts are up to date with only the current balance being due at any given time.

12 The Company's failure to collect amounts charged and due was, at its core, a process
13 problem that is different from the issue discussed in Decision No. 71869. Staff has
14 alleged that the Company "failed to properly collect" amounts due from a total of four
15 accounts. But Staff fails to recognize that it was the Company that identified this
16 problem and took the necessary action to correct it. Staff does not dispute that the
17 amounts were charged, included in the company's revenue and carried as accounts
18 receivable balances. Further, Staff does not dispute, with the possible exception of
19 \$5,064.42, that the amounts charged for the four accounts in question were ultimately
20 collected.

21 **Q. WHAT WAS THE UNDERLYING PROCESS PROBLEM YOU MENTION?**

22 A. The problem is explained by Company employee Christine Nelson in the Company's
23 response to Staff Data Request TBH 2.9 attached to Ms. Hunsaker's Direct Testimony.

1 During the test year the Company was not following procedure for shut offs for
2 Granite Mountain Water Company. When new employee (Christine Nelson) was
3 hired and was being trained by Pam Harbeson, she was told by the former
4 employee not to perform shut-offs in Granite Mountain, but she was not given an
5 explanation as to why. After a few months the new employee questioned this
6 procedure and began to look through the accounts and noticed multiple past due
7 bills. The matter was brought to the attention of the Operations Manager at which
8 time she was notified that that proper procedure was not being followed and that
9 notification and shut-offs should be done every month. At that time, the Company
10 sent out late notices to all delinquent accounts and began collecting monies that
11 were due.

12 **Q. HAS THIS PROCESS PROBLEM BEEN CORRECTED?**

13 A. Yes it has. Ms. Nelson provided additional insight into the situation in the Company's
14 response to Staff Data Request TBH 3.12.

15 Having reviewed the records and spoken with Management, it appears that no
16 accounts were shut off for non-payment for the test year or prior years. As noted
17 in the Company's response to TBH 3.11, until Christine Nelson brought this to
18 the attention of the Operations Manager in December 2013, delinquent notices
19 and shut-offs had never been performed in the Granite Mountain system.
20 Management advises that this was likely due to generally good payment history
21 within the Granite Mountain system and general lack of past due balances. Due
22 to the higher income level in this area, the Company believes that shut off's will
23 be quite rare, and even in 2014 when the **proper procedures have been**
24 **followed**, we do not show any customers that were shut off due to non-payment.
25 [Emphasis added]

26 **Q. CAN YOU ADDRESS THE \$5,064.42 THAT STAFF NOTES WAS IMPROPERLY**
27 **CREDITED TO MR. DANNY LEVIE'S ACCOUNT?**

28 A. Staff is referring to two separate transactions that I will address separately. First, the
29 Company issued a \$1,564.42 credit to Mr. Daniel Levie as an adjustment for high usage
30 due to a leak and to reduce late fees. I will note that this sort of courtesy adjustment is
31 not unusual in the water industry. However, in this case, given the father/son relationship
32 involved, the Company, in retrospect, will concede that it would have been a better
33 business practice to not have made the adjustment.

1 The \$3,500 credit is related to work performed by Mr. Daniel Levie during the
2 construction of Well No.6. As noted by Ms. Hunsaker, the Company agreed to pay Mr.
3 Daniel Levie \$3,500 to install two large culverts under the Well No. 6 driveway. The
4 Company first issued a check to Mr. Daniel Levie and then voided the check and applied
5 a \$3,500 credit to Mr. Daniel Levie's delinquent account rather than making the payment.
6 In the end, rather than pay Mr. Daniel Levie for the work he successfully performed, the
7 Company choose to apply the payment against his delinquent water account. This action
8 was taken in good faith to reduce Mr. Daniel Levie's delinquency using funds owed to
9 Mr. Daniel Levie.

10 **Q. WHAT IS THE APPROPRIATE COMMISSON ACTION NEEDED TO**
11 **ADDRESS STAFF'S CONCERNS?**

12 A. Staff has recommended that the Company develop a Code of Affiliate Conduct that
13 would include addressing the timely collection water billings from affiliates. As
14 discussed below, the Company does not oppose development of a Code of Affiliate
15 Conduct as recommended by Staff and believes the Code of Conduct will adequately
16 insure that the Company continue its current practice of collecting all amounts due from
17 affiliates in a timely manner.

18 Staff is already penalizing the Company for its actions though the disallowance of \$3,500
19 in rate base associated with the cost of work performed by Mr. Daniel Levie and
20 ultimately credited against his water billing. The Company has agreed to Staff's
21 exclusion of this amount from the post-test year plant balance for Well No. 6 and will
22 remove the balance from its plant in service balance. This penalty, in conjunction with
23 the Code of Affiliate Conduct, is sufficient to ensure the Company's continued collecting
24 of all amounts due from affiliates in a timely manner. There is no need for any additional
25 penalties.

1 **VIII OTHER ISSUES**

2 **Code of Conduct**

3 **Q. WHAT IS THE COMPANY'S POSITION REGARDING THE DEVELOPMENT**
4 **OF A CODE OF AFFILIATE CONDUCT (STAFF RECOMMENDATION NO. 8)?**

5 A. The Company is committed to improving its record keeping and cost accounting to
6 address the issues raised by Staff in this case and to separate the costs related to
7 unregulated affiliates from the cost related to Granite and the regulated affiliates. The
8 Company does not oppose development of a Code of Affiliate Conduct as recommended
9 by Staff. The Company notes, however, that while a Code of Affiliate Conduct would
10 govern relationships and transactions between the regulated and nonregulated affiliates, it
11 would only be adopted by the regulated affiliates and applicable to the transactions
12 recorded by the regulated affiliates that are under Commission jurisdiction.

13 **4-Factor Allocation and Use of Detailed Time Sheets**

14 **Q. WHAT IS THE COMPANY'S POSITION REGARDING USE OF STAFF'S 4-**
15 **FACTOR ALLOCATION METHOD AND DETAILED TIME SHEETS? (STAFF**
16 **RECOMMENDATION NO. 5)?**

17 A. For the reasons discussed in this testimony, the Company opposes the use of Staff's 4-
18 factor allocation model and instead proposes to allocate common costs 80.5% to Chino
19 and 19.5% to Granite on a going-forward basis beginning with 2016. In regard to the use
20 of detailed time cards, the Company does not support this as a separate recommendation.
21 The Company believes the use of time cards can and should be incorporated into the
22 Code of Affiliate Conduct.

Report of Corporate Cost Allocations

Q. WHAT IS THE COMPANY'S POSITION REGARDING THE ANNUAL FILING OF A REPORT OF CORPORATE COST ALLOCATIONS (STAFF RECOMMENDATION NO. 4)?

A. This recommendation is unnecessary and burdensome, particularly on a Class E utility. The Company intends, to the extent possible, to update its practices to eliminate cost allocations between its regulated and unregulated affiliates. The Company proposes to document these changes in the Code of Affiliate Conduct. Additionally, the current Staff recommendation is not detailed enough to allow the Company to determine what specifically would be reported.

Affiliate Receivables and Payables

Q. WHAT IS YOUR UNDERSTANDING OF STAFF'S RECOMMENDATIONS REGARDING AFFILIATE RECEIVABLES AND PAYABLES (STAFF RECOMMENDATION No. 3)?

A. My understanding is that the recommendation contains a number of separate recommendations that are not all stated in the numbered recommendation. My understanding of the full recommendation is can be summarized as follows:

1. The Company should collect all receivables from affiliates within one year from the Decision in this case.
2. The Company should cease making any further personal loans or advances with Company funds.
3. The Company should pay all payables to affiliates within 24 months of the Decision in this case.

1 4. The Company should obtain specific authorization by the Commission for
2 indebtedness payable, including amounts appearing in affiliate payable accounts.

3 **Q. WHAT IS THE COMPANY'S POSITION ON THE RECOMMENDATIONS?**

4 A. The Company accepts parts 1 and 2 of the recommendation with the understanding the
5 part 2 applies only to affiliates. For example, the Company does occasionally advance
6 funds to unaffiliated employees with the funds being recovered from future pay checks.
7 The Company believes this practice is consistent with industry practices and that it
8 should be able to continue the practice.

9 The Company is concerned with parts 3 and 4 of the recommendation concerning
10 transactions between the regulated affiliates and cannot support the recommendations.
11 The Company does support the recommendation with respect to unregulated affiliates.

12 **Q. WHAT ARE YOUR CONCERNS WITH PARTS 3 AND 4 OF THE**
13 **RECOMMENDATION?**

14 A. As discussed in this testimony, the regulated affiliates are operated using common
15 facilities and common staff and they are at different stages in their life cycles, with Chino
16 being established and Granite and Antelope being relatively new companies dealing with
17 high plant costs. The Company believes that the ability to use excess funds from one of
18 the regulated affiliates to support the cash needs of another regulated affiliate is in the
19 public interest, and the practice is consistent with the industry and Commission efforts to
20 explore consolidation of smaller companies. Moreover, tracking these funds through the
21 use of intercompany receivable/payable accounts is a convenient and efficient method to
22 record the transactions that provides complete transparency to the Commission. As long
23 as there is no interest charged and no expectation that the funds be repaid, as is the case
24 here, there is no debt that requires approval by the Commission.

1 If Staff's recommendation is adopted, Granite and the other regulated companies would
2 be forced to adopt burdensome, formalized policies and potentially obtain approvals prior
3 to transferring funds. In all likelihood, the only solution to meeting the utilities' cash
4 needs would be for the providing company to go through required corporate formalities
5 and issue a potentially taxable distribution to Mr. Levie⁴. Mr. Levie would in-turn
6 provide the after-tax portion of the dividend to the receiving company to be recorded as
7 additional paid in capital. In the end, the companies would be in the same position—less
8 any income tax effects— but efficiency and transparency would be lost. The Company
9 requests that the Commission allow the Company to continue its current practice of
10 tracking the transfer of funds from one regulated affiliate to another regulated affiliate
11 through the use of intercompany receivable/payable accounts. If and to the extent this
12 practice requires Commission approval, the Company asks the Commission to issue the
13 required approval in this case or in the alternative waive the applicable requirement
14 necessitating the approval.

15 **Interim Manager**

16 **Q. WHAT IS THE COMPANY'S POSITION REGARDING STAFF'S REQUEST**
17 **FOR AUTHORITY TO APPOINT AN INTERIM MANAGER IF THE**
18 **COMPANY VIOLATES THE CODE OF AFFILIATE CONDUCT?**

19 **A.** As I understand it, Staff asks for authority, without further action by the Commission, to
20 appoint an interim manager if the Company violates the adopted Code of Affiliate
21 Conduct. I am not an attorney, but I am told that this authority would violate Granite's
22 due-process rights guaranteed by the United States Constitution. I am told further that
23 the 14th Amendment of the United States Constitution requires that a party receive notice

⁴ Note: Paul and Rae Levie jointly own all of the stock of Granite.

1 and a fair hearing before being deprived of personal or property rights, where the hearing
2 includes at least notice of the hearing, a hearing with the right to produce witnesses and
3 examine adverse witnesses, and to have a full consideration and determination according
4 to evidence before the body with whom the hearing is held. If Staff continues to make
5 this recommendation, the Company will address the legal issue in its brief.

6 To my knowledge, the Commission has heretofore justified appointment of an interim
7 manager only in extraordinary circumstances, where public health and safety is
8 jeopardized. And in every case, the appointment followed a public hearing where the
9 affected utility had notice, an opportunity to appear and present evidence, and the
10 Commission issued an order containing findings of fact and conclusion of law. Staff asks
11 to bypass these due-process safeguards by delegating to itself the ability to appoint an
12 interim manager if it determined in its sole discretion that Granite had violated the
13 Affiliate Code of Conduct. Yet, it is difficult to understand the relationship of any
14 provision suggested by Staff to public health and safety.

15 Further, Staff's request is not supported by the evidence in this case. The Company has
16 been transparent and open in its dealings with Commission. There is no evidence of any
17 willful violation of Commission rules or accounting standards. The Company has
18 cooperated in accepting Staff's recommendations and otherwise correcting any
19 accounting irregularities.

20 Finally, Staff's request would set dangerous precedent. In my experience, small water
21 companies do not have and cannot afford the staffing or expertise necessary to
22 understand and comply with every nuance of utility accounting and the Commission's
23 rate-making requirements. Mistakes are made, and they happen even at the large water
24 companies that have extensive staff dedicated to accounting and regulatory compliance.

1 A continuing threat of confiscation of a small water company from its owner does not
2 serve the public interest and would only make the difficult business of operating a small
3 water company even more difficult.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 **A. Yes.**

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB1

Resume Including Summary of Regulatory Experience

ARICOR

Water Solutions

Ray L. Jones P.E.

Principal

**18835 North Thompson Peak Parkway, Suite 215
Scottsdale, Arizona 85255**

EXPERTISE

Mr. Jones founded ARICOR Water Solutions in 2004. Through ARICOR Water Solutions, Mr. Jones offers a wide range of engineering and financial analysis services to the private and public sectors. Projects include development of regulatory strategies and preparing rate cases, including preparation of rate studies, cost of service studies, financial schedules and testimony for filings before the Arizona Corporation Commission. Services also include consultation on water and wastewater utility formation, management and operations, and valuation, including due diligence analysis, water resources strategy development and water rights valuation. ARICOR Water Solutions provides water, wastewater and water resource master planning, water and wastewater facilities design, and owner representation; including value engineering, program management and construction oversight. Lastly, ARICOR Water Solutions supports water solutions with contract operations and expert witness testimony and litigation support.

EMPLOYMENT HISTORY

2002 to 2004

Arizona-American Water Company

President

Responsible for leadership of the Arizona business activities of Arizona-American Water Company. Key responsibilities include developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1998 to 2002

Citizens Water Resources, Arizona Operations

Vice President and General Manager

Responsible for leadership of the Arizona regulated and unregulated business activities of Citizens Water Resources. Key responsibilities included developing and evaluation new business opportunities, developing strategic plans, establishing effective government and community relations, insuring compliance with all regulatory requirements, and providing management and guidance to key operations and support personnel.

1990 to 1998

Citizens Water Resources, Arizona Operations

Engineering and Development Services Manager

Responsible for management of a diverse group of business growth related activities. Responsibilities include: marketing of operation and maintenance services (unregulated business growth), management of new development activity (regulated business growth), management of engineering functions (infrastructure planning and construction), management of water resources planning and compliance, management of growth-related regulatory functions (CC&N's and Franchises), and management of capital budgeting functions and capital accounting functions.

1985 to 1990

Citizens Water Resources, Arizona Operations

Civil Engineer

Responsible for the planning, coordination and supervision of capital expansion and major maintenance and rehabilitation projects as assigned. Responsible for development of capital program for Maricopa County Operations.

EDUCATION

Arizona State University – Master of Business Administration (1991)

University of Kansas – Bachelor of Science in Civil Engineering (1985)

PROFESSIONAL CERTIFICATION

Registered Professional Engineer – Civil Engineering – Arizona
Professional Engineer – Civil Engineering – California
Certified Operator – Wastewater Treatment, Wastewater Collection, Water Treatment, Water Distribution – Arizona

PROFESSIONAL AFFILIATIONS

- Executive Director – Water Utilities Association of Arizona
- Member - American Society of Professional Engineers
- Member – American Society of Civil Engineers
- Member - American Water Works Association
- Member - Arizona Water Association
- Member - Water Environment Federation

CIVIC AND COMMUNITY INVOLVEMENT

- Board of Directors – Greater Maricopa Foreign Trade Zone (2009 – Present)
- Advisory Member - Water Resources Development Commission (2010 – 2012)
- Chairman WESTMARC (2008)
- Director and Member of the Executive Committee- WESTMARC (1998 – 2010)
- Co-Chairman, WESTMARC Water Committee (2006 – 2007)
- Chairman-Elect WESTMARC (2007)
- Member – Corporate Contributions Committee, West Valley Fine Arts Council Diamond Ball (Chairman 2005)
- Member – Technical Advisory Committee – Governor’s Water Management Commission (2001)
- Board Member, Manager & Past Chairman – North Valley Little League Softball

REGULATORY EXPERIENCE

Testimony has been provided before the Arizona Corporation Commission in the dockets listed below. Unless otherwise indicated testimony was provided on behalf of the utility.

| Filing Year | Utility(ies) | Filing Type(s) | Docket(s) |
|--------------------|---|---|---|
| 1992 | Sun City West Utilities Company | CC&N Extension (Expansion of Sun City West) | U-2334-92-244 |
| 1993 | Sun City Water Company Sun City Sewer Company | CC&N Extension (Addition of Coyote Lakes) | U-1656-93-060 U-2276-93-060 |
| 1993 | Tubac Valley Water Co., Inc. | CC&N Extension (Various Subdivisions on western border) | U-1595-93-241 |
| 1993 | Sun City West Utilities Company | CC&N Extension (Expansion of Sun City West) | U-2334-93-293 |
| 1995 | Citizens Utilities Company Sun City Water Company Sun City Sewer Company Sun City West Utilities Company Tubac Valley Water Company | Ratemaking | E-1032-95-417 U-1656-95-417 U-2276-95-417 U-2334-95-417 U-1595-95-417 |
| 1996 | City Water Company Sun City Sewer Company | CC&N Extension (Acquisition of Youngtown) | U-1656-96-282 U-2276-96-282 |
| 1996 | Citizens Utilities Company | CC&N Extension and Deletion (Realignment of Surprise Bdry.) | E-1032-96-518 |
| 1998 | Sun City Water Company Sun City West Utilities Company | CAP Water Plan and Accounting Order (Sun Cities CAP plan) | W-01656A-98-0577 SW-02334A-98-0577 |

| Filing Year | Utility(ies) | Filing Type(s) | Docket(s) |
|-------------|--|---|---|
| 2000 | Citizens Water Resources Company of Arizona Citizens Water Services Company of Arizona | CC&N Extension and Accounting Order (Anthen Jacka Property and Phoenix Treatment Agreement) | SW-3455-00-1022 SW-3454-00-1022 |
| 2000 | Citizens Communications Company Citizens Water Services Company of Arizona | CC&N Extension and Approval of Hook-Up Fee (Verrado) | W-0132B-00-1043 SW-0354A-00-1043 |
| 2002 | Arizona-American Water Company | Ratemaking | WS-01303A-02-0867 WS-01303A-02-0868 WS-01303A-02-0869 WS-01303A-02-0870 WS-01303A-02-0908 |
| 2004 | Arizona-American Water Company Rancho Cabrillo Water Company Rancho Cabrillo Sewer Company | CC&N Transfer | WS-01303A-04-0089 W-01303A-04-0089 SW-03898A-04-0089 |
| 2004 | Johnson Utilities Company, LLC (Representing Pulte Home Corporation) | CC&N Extension | WS-02987A-04-0288 |
| 2005 | Perkins Mountain Utility Company Perkins Mountain Water Company | New CC&N & Initial Rates | WS-20379A-05-0489 W-20380A-05-0490 |
| 2005 | West End Water Company | CC&N Extension | W-01157A-05-706 |
| 2005 | Arizona-American Water Company | Approvals Associated with Construction of Surface Water Treatment Facility | W-01303A-05-0718 |
| 2006 | Arizona-American Water Company | Ratemaking | WS-01303A-06-0403 |
| 2008 | Sunrise Water Company | Ratemaking | W-02069A-08-0406 |
| 2009 | Baca Float Water Company | Ratemaking | WS-01678A-09-0376 |
| 2009 | Aubrey Water Company | Lost Water Evaluation (Rate Case Compliance) | W-03476A-06-0425 |
| 2009 | White Horse Ranch Owner's Assn. | Ratemaking | W-04161A-09-0471 |
| 2010 | Litchfield Park Service Company | Ratemaking | W-01427A-09-0104 |
| 2010 | Chino Meadows II Water Company | Ratemaking | W-02370A-10-0519 |
| 2011 | Pima Utility Company | Ratemaking | W-021999A-11-0329 WS-02199A-11-0330 |
| 2011 | Tusayan Water Development Association, Inc. (Representing the Town of Tusayan) | Ratemaking | W-02350A-10-0163 |
| 2012 | Valley Utilities Water Company, Inc. | Ratemaking | W-01412A-12-0195 |

| Filing Year | Utility(ies) | Filing Type(s) | Docket(s) |
|-------------|---|---------------------------------------|-------------------|
| 2012 | Far West Water & Sewer, Inc. | Ratemaking | WS-03478A-12-0307 |
| 2012 | Sahuarita Water Company, LLC | Amend Off-Site Facilities Hook-Up Fee | W-03718A-09-0359 |
| 2012 | New River Utility Company | Ratemaking | W-01737A-12-0478 |
| 2013 | Far West Water & Sewer, Inc. | New Off-Site Facilities Hook-Up Fees | WS-03478A-13-0200 |
| 2012 | Adman Mutual Water Company | Ratemaking | W-01997A-12-0501 |
| 2013 | Far West Water & Sewer, Inc. | CC&N Extension | WS-03478A-13-0250 |
| 2013 | Lago Del Oro Water Company | Ratemaking | W-01944A-13-0215 |
| 2013 | Lago Del Oro Water Company | Financing | W-01944A-13-0242 |
| 2012 | Sunrise Water Company | Financing | W-02069A-12-0261 |
| 2010 | Far West Water & Sewer, Inc. | CC&N Extension | WS-03478A-10-0523 |
| 2014 | Granite Mountain Water Co., Inc. | Ratemaking | W-02467A-14-0230 |
| 2014 | Chino Meadows II Water Co., Inc. | Ratemaking | W-02370A-14-0231 |
| 2014 | Quail Creek Water Company | Ratemaking | W-02514A-14-0343 |
| 2015 | Cordes Lakes Water Company | Ratemaking | W-02060A-15-0245 |
| 2015 | BN Leasing Corporation d.b.a. Aubrey Water Company | Ratemaking | W-03476A-15-0286 |

August, 2015

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB2

Rebuttal Schedules

| Line No. | | OCRB |
|-------------|-----------------------------------|------------|
| 1 | Adjusted Rate Base | \$ 583,926 |
| 2 | | |
| 3 | Adjusted Operating Income | (2,694) |
| 4 | | |
| 5 | Current Rate of Return | -0.46% |
| 6 | | |
| 7 | Required Rate of Return | 8.03% |
| 8 | | |
| 9 | Required Operating Income | \$ 46,895 |
| 10 | | |
| 11 | Operating Income Deficiency | \$ 49,589 |
| 12 | | |
| 13 | Gross Revenue Conversion Factor | 1.2089 |
| 14 | | |
| 15 | Increase in Gross Revenue | \$ 59,950 |
| 16 | | |
| 17 | Adjusted Test Year Revenue | \$ 117,320 |
| 18 | | |
| 19 | Proposed Annual Revenue | \$ 177,270 |
| 20 | | |
| 21 | Percent Increase in Gross Revenue | 51.10% |
| 22 | | |
| 23 | | |

| Line No. | | Original Cost Rate Base* |
|-------------|--|--------------------------------|
| 1 | | |
| 2 | Gross Utility Plant in Service | \$ 1,116,126 |
| 3 | | |
| 4 | Less: Accumulated Depreciation | <u>(533,361)</u> |
| 5 | | |
| 6 | Net Utility Plant in Service | 582,765 |
| 7 | | |
| 8 | Less: | |
| 9 | Advances in Aid of Construction | 6,021 |
| 10 | | |
| 11 | Contributions in Aid of Construction | - |
| 12 | Accumulated Amortization of CIAC | <u>-</u> |
| 13 | Contributions in Aid of Construction - Net | - |
| 14 | | |
| 15 | Customer Security Deposits | 750 |
| 16 | Deferred Income Taxes | - |
| 17 | | |
| 18 | Plus: | |
| 19 | Working Capital | 7,932 |
| 20 | Net Regulatory Asset / (Liability) | - |
| 21 | | |
| 22 | Rate Base | <u>\$ 583,926</u> |
| 23 | | |
| 24 | * including pro forma adjustments | |
| 25 | | |

| Line No. | Actual End of Test Year | ADJ OC-1 | ADJ OC-2 | ADJ OC-3 NOT USED | ADJ OC-4 | Rebuttal Adjustments | Total Pro Forma Adjustments | Adjusted End of Test Year |
|----------|-------------------------|------------|-----------|----------------------|----------|----------------------|-----------------------------|---------------------------|
| 1 | | | | | | | | |
| 2 | \$ 846,548 | \$ 248,893 | | | | \$ 20,685 | \$ 269,578 | \$ 1,116,126 |
| 3 | | | | | | | | |
| 4 | (556,045) | | 23,553 | | | (870) | 22,683 | (533,361) |
| 5 | | | | | | | | |
| 6 | 290,504 | 248,893 | 23,553 | | | 19,815 | 292,261 | 582,765 |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
| 9 | 8,256 | | | | | (2,235) | (2,235) | 6,021 |
| 10 | | | | | | | | |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | 70 | | | | | | 680 | 750 |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | 10,662 | | | | | (2,730) | (2,730) | 7,932 |
| 20 | | | | | | | | |
| 21 | | | | | | | | |
| 22 | \$ 292,840 | \$ 248,893 | \$ 23,553 | \$ - | \$ (680) | \$ 19,320 | \$ 291,085 | \$ 583,926 |
| 23 | | | | | | | | |
| 24 | | | | | | | | |
| 25 | | | | | | | | |
| 26 | | | | | | | | |
| 27 | | | | | | | | |

Accumulated Depreciation

Book Adjustments - (Included on Schedule B.2.1)

Rate Making Adjustments

| Line No. | Acct No. | Description | Actual End of Test Year | Updated for Rebuttal Filing | | | | Rebuttal | | | Adjusted Book End of Test Year | [2.6] NOT USED | [2.7] NOT USED | Adjusted End of Test Year | | | |
|----------|----------|--|-------------------------|---------------------------------|---------------------------------------|----------------|----------------|----------------------------|------|------------|--------------------------------|----------------|----------------|---------------------------|---------|-------------------|------------|
| | | | | [2.1] Unbooked Plant Retirement | [2.2] Difference From Calc'd on B-2.1 | [2.3] NOT USED | [2.4] NOT USED | [2.5] PTY Plant Well No. 4 | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | | | | | | |
| 4 | 301 | Organization Cost | | - | | | | | | | | | | | | | |
| 5 | 302 | Franchise Cost | | - | | | | | | | | | | | | | |
| 6 | 303 | Land and Land Rights | | - | | | | | | | | | | | | | |
| 7 | 304 | Structures & Improvements | | | 20,635 | | | | | 20,635 | | | | | 20,635 | | |
| 8 | 305 | Collecting & Impounding Reservoirs | | - | | | | | | | | | | | | | |
| 9 | 306 | Lake, River, Canal Intakes | | - | | | | | | | | | | | | | |
| 10 | 307 | Wells & Springs | | | 26,900 | | | | | 26,900 | | | | | 26,900 | | |
| 11 | 308 | Infiltration Galleries | | - | | | | | | | | | | | | | |
| 12 | 309 | Raw Water Supply Mains | | - | | | | | | | | | | | | | |
| 13 | 310 | Power Generation Equipment | | | | | | | | | | | | | | | |
| 14 | 311 | Pumping Equipment | | | 114 | | | | | 114 | | | | | 114 | | |
| 15 | 320 | Water Treatment Equipment | | | 104,270 | | | | | 104,270 | (4,680) | | | | 99,590 | | |
| 16 | 320 | Water Treatment Plants | | - | | | | | | | | | | | | | |
| 17 | 320 | Solution Chemical Feeders | | | 2,077 | | | | | 2,077 | | | | | | | |
| 18 | 330 | Distribution Reservoirs & Standpipes | | - | | | | | | | | | | | | | |
| 19 | 330.1 | Storage Tanks | | | | | | | | | | | | | | | |
| 20 | 330.2 | Pressure Tanks | | | 10,697 | | | | | 10,697 | | | | | 10,697 | | |
| 21 | 331 | Transmission & Distribution Mains | | | 43,203 | | | | | 43,203 | | | | | 43,203 | | |
| 22 | 333 | Services | | | 260,975 | | | | | 260,975 | | | | | 260,975 | | |
| 23 | 334 | Meters | | | 39,040 | | | | | 39,040 | | | | | 39,040 | | |
| 24 | 335 | Hydrants | | | 4,099 | | | | | 4,099 | | | | | 4,099 | | |
| 25 | 336 | Backflow Prevention Devices | | | 5,550 | | | | | 5,550 | | | | | 5,550 | | |
| 26 | 339 | Other Plant & Misc Equipment | | | 889 | | | | | 889 | | | | | 889 | | |
| 27 | 340 | Office Furniture & Equipment | | | 4,200 | | | | | 4,200 | | | | | 4,200 | | |
| 28 | 340.1 | Computers & Software | | | | | | | | | | | | | | | |
| 29 | 341 | Transportation Equipment | | | 2,450 | | | | | 2,450 | | | | | 2,450 | | |
| 30 | 342 | Stores Equipment | | | 5,628 | | | | | 5,628 | | | | | 5,628 | | |
| 31 | 343 | Tools, Shop & Garage Equipment | | | | | | | | | | | | | | | |
| 32 | 344 | Laboratory Equipment | | | | | | | | | | | | | | | |
| 33 | 345 | Power Operated Equipment | | | 3,912 | | | | | 3,912 | | | | | 3,912 | | |
| 34 | 346 | Communication Equipment | | | 3,383 | | | | | 3,383 | | | | | 3,383 | | |
| 35 | 347 | Miscellaneous Equipment | | | | | | | | | | | | | | | |
| 36 | 348 | Other Tangible Plant | | | | | | | | | | | | | | | |
| 37 | | TOTALS | | \$ 556,045 | \$ - | \$ 538,041 | \$ - | \$ - | \$ - | \$ 538,041 | \$ (4,680) | \$ - | \$ - | \$ - | 20 | Total Equity Adj. | \$ 533,361 |
| 38 | | Equity Adjustments (Attachment 3, pg 21) | | | \$ 18,003 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 4,680 | \$ - | \$ - | \$ - | 22,683 | | \$ 22,683 |

Accumulated Depreciation per Books

Increase / (Decrease) in Accumulated Depreciation

¹ Adjusted accumulated depreciation balance including all book adjustments.

\$ 556,045

\$ (22,683)

Total Equity Adj. \$ 22,683

| | | Per Decision No. 71869 - 09/01/2010 | | | | | Conform Current Books to 71869 | | | | |
|------|---------------|--------------------------------------|----------------------|--------------------------|-------------------------|----------------------|---|----------------------------|--------------------------|-----------------------------|------------------------------|
| | | [1] | [2] | [3] | [4] | [5] | [6] | [7] | [8] | [9] | [10] |
| Line | NARUC Account | Plant In Service at 12/31/2008 | Less Post Year Plant | Book Plant at 12/31/2008 | Accum. Depr. 12/31/2008 | Net Plant 12/31/2008 | Non or Fully Depreciated Plant ¹ | Depr'able Plant 12/31/2008 | Book Plant at 12/31/2008 | Conforming Plant Adjustment | Adjusted Plant at 12/31/2008 |
| No. | Description | 12/31/2008 | Year Plant | 12/31/2008 | 12/31/2008 | 12/31/2008 | Plant ¹ | Plant | 12/31/2008 | [3]-[8] | [8]+[9] |
| | | | | [1]+[2] | | [3]-[4] | | | | | |
| 1 | 301 | Organization Cost | 110 | 110 | | 110 | | 110 | 110 | - | 110 |
| 2 | 302 | Franchise Cost | | - | | - | | - | | - | - |
| 3 | 303 | Land and Land Rights | | | | - | | - | | - | - |
| 4 | 304 | Structures & Improvements | 21,608 | | 11,506 | 10,102 | | 21,608 | 57,379 | (35,771) | 21,608 |
| 5 | 305 | Collecting & Impounding Reservoirs | | | | | | | | - | - |
| 6 | 306 | Lake, River, Canal Intakes | | | | - | | - | | - | - |
| 7 | 307 | Wells & Springs | 38,472 | | 20,485 | 17,987 | | 38,472 | 52,027 | (13,555) | 38,472 |
| 8 | 308 | Infiltration Galleries | | | | - | | - | | - | - |
| 9 | 309 | Raw Water Supply Mains | | | | - | | - | 991 | (991) | - |
| 10 | 310 | Power Generation Equipment | | | | - | | - | 9,494 | (9,494) | - |
| 11 | 311 | Pumping Equipment | 104,270 | | 55,521 | 48,749 | | 104,270 | 94,776 | 9,494 | 104,270 |
| 12 | 320 | Water Treatment Equipment | | | | - | | - | | - | - |
| 13 | 320 | Water Treatment Plants | | | | - | | - | | - | - |
| 14 | 320 | Solution Chemical Feeders | 1,661 | | 884 | 776 | | 1,661 | 1,661 | - | 1,661 |
| 15 | 330 | Distribution Reservoirs & Standpipes | | | | - | | - | | - | - |
| 16 | 330.1 | Storage Tanks | 7,325 | | 3,900 | 3,425 | | 7,325 | 7,325 | - | 7,325 |
| 17 | 330.2 | Pressure Tanks | 55,213 | | 29,400 | 25,814 | | 55,213 | | 55,213 | 55,213 |
| 18 | 331 | Transmission & Distribution Mains | 412,204 | | 219,489 | 192,715 | | 412,204 | 400,508 | 11,696 | 412,204 |
| 19 | 333 | Services | 55,853 | | 29,740 | 26,113 | | 55,853 | 55,853 | - | 55,853 |
| 20 | 334 | Meters | 3,434 | | 1,829 | 1,605 | | 3,434 | 3,541 | (107) | 3,434 |
| 21 | 335 | Hydrants | 8,774 | | 4,672 | 4,102 | | 8,774 | 8,774 | | 8,774 |
| 22 | 336 | Backflow Prevention Devices | 1,027 | | 547 | 480 | | 1,027 | 1,027 | - | 1,027 |
| 23 | 339 | Other Plant & Misc Equipment | 4,850 | | 2,583 | 2,267 | | 4,850 | 34,998 | (30,148) | 4,850 |
| 24 | 340 | Office Furniture & Equipment | | | | - | | - | | - | - |
| 25 | 340.1 | Computers & Software | | | | - | | - | | - | - |
| 26 | 341 | Transportation Equipment | | | | - | | - | | - | - |
| 27 | 342 | Stores Equipment | | | | - | | - | | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | | | | - | | - | | - | - |
| 29 | 344 | Laboratory Equipment | | | | - | | - | | - | - |
| 30 | 345 | Power Operated Equipment | 5,000 | | 2,662 | 2,338 | | 5,000 | 5,000 | - | 5,000 |
| 31 | 346 | Communication Equipment | 853 | | 454 | 399 | | 853 | 853 | - | 853 |
| 32 | 347 | Miscellaneous Equipment | | | | - | | - | | - | - |
| 33 | 348 | Other Tangible Plant | 20 | | 11 | 9 | | 20 | 20 | - | 20 |
| 34 | | | | | | | | | | | |
| 35 | TOTAL | 720,673 | - | 720,673 | 383,682 | 336,991 | - | 720,673 | 734,335 | (13,662) | 720,673 |

¹ Per Staff Depreciation Calculation

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2009 | | | | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|----------------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Adjusted Plant Retirements | | | | | |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | 110 | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | - | 36,913 | 36,913 | - | - | 1,334 | 58,521 | 12,840 | 45,681 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | - | - | - | - | 1,281 | 38,472 | 21,766 | 16,705 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | - | - | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | 13,034 | 104,270 | 68,555 | 35,715 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | 332 | 1,661 | 1,216 | 444 |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 2.22% | 85,533 | (36,913) | 48,720 | - | - | 703 | 56,045 | 4,604 | 51,441 |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | 2,761 | 55,213 | 32,160 | 23,053 |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | 2,961 | 2,961 | 2,961 | - | - | 8,274 | 415,165 | 227,762 | 187,403 |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | 1,860 | 55,853 | 31,600 | 24,253 |
| 20 | 334 | Meters | 8.33% | - | - | - | - | - | 286 | 3,434 | 2,115 | 1,319 |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | 175 | 8,774 | 4,848 | 3,927 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | 68 | 1,027 | 615 | 411 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | 324 | 4,850 | 2,906 | 1,944 |
| 24 | 340 | Office Furniture & Equipment | 6.67% | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 20.00% | - | - | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.00% | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | - | - | - | - | - | 250 | 5,000 | 2,912 | 2,088 |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | 85 | 853 | 540 | 313 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | - | - | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | 4 | 20 | 15 | 5 |
| 34 | | | | | | | | | | | | |
| 35 | | TOTAL | | 88,594 | - | 88,594 | - | - | 30,772 | 809,267 | 414,454 | 394,813 |
| 36 | | | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | | 809,157 | | |
| 38 | | Composite Depreciation Rate | | | | | | | | 3.8029% | | |
| 39 | | | | | | | | | | | | |

¹ Per Staff Depreciation Calculation

| NARUC Account | | Description | Allowed Deprec. Rate | 2010 | | | | | | | | | |
|---------------|-------|---|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------|----------------------------|------------------|---------------------------|---------------|----------------|
| Line No. | No. | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Unbooked Retirements | Adjusted Plant Retirements | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. |
| 1 | 301 | Organization Cost | 0.00% | | | - | | | - | | 110 | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | | | - | | | - | | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | | | - | | | - | | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | | | - | | | - | 1,949 | 58,521 | 14,788 | 43,732 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | | | - | | | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | | | - | | | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | | | - | | | - | 1,281 | 38,472 | 23,048 | 15,424 |
| 8 | 308 | Infiltration Galleries | 6.67% | | | - | | | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | | | - | | | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | | | - | | | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 12.50% | | | - | | | - | 13,034 | 104,270 | 81,588 | 22,681 |
| 12 | 320 | Water Treatment Equipment | 3.33% | | | - | | | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | 416 | | 416 | | | - | 374 | 2,077 | 1,590 | 487 |
| 14 | 320 | Solution Chemical Feeders | 20.00% | | | - | | | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | 450 | (450) | - | | | - | 1,404 | 70,417 | 6,008 | 64,409 |
| 16 | 330.1 | Storage Tanks | 2.22% | 21,072 | (6,700) | 14,372 | | | - | 2,761 | 55,213 | 34,921 | 20,292 |
| 17 | 330.2 | Pressure Tanks | 5.00% | | | - | | | - | 8,303 | 415,165 | 236,065 | 179,100 |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | | | - | | | - | 1,860 | 55,853 | 33,460 | 22,393 |
| 19 | 333 | Services | 3.33% | | | - | | | - | 396 | 6,062 | 2,510 | 3,552 |
| 20 | 334 | Meters | 8.33% | 2,628 | | 2,628 | | | - | 175 | 8,774 | 5,023 | 3,751 |
| 21 | 335 | Hydrants | 2.00% | | | - | | | - | 68 | 1,027 | 684 | 343 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | | | - | | | - | 324 | 4,850 | 3,230 | 1,620 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | | | - | | | - | - | - | - | - |
| 24 | 340 | Office Furniture & Equipment | 6.67% | | | - | | | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | | 3,500 | 3,500 | | | - | 350 | 3,500 | 350 | 3,150 |
| 26 | 341 | Transportation Equipment | 20.00% | | | - | | | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.00% | | | - | | | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | | | - | | | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | | | - | | | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | | | - | | | - | 250 | 5,000 | 3,162 | 1,838 |
| 31 | 346 | Communication Equipment | 10.00% | 3,500 | 3,650 | 7,150 | | | - | 443 | 8,003 | 982 | 7,021 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | | | - | | | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | | | - | | | - | 4 | 20 | 19 | 1 |
| 34 | | | | | | - | | | - | | | | |
| 35 | | TOTAL | | 28,067 | - | 28,067 | | | - | 32,975 | 837,333 | 447,478 | 389,905 |
| 36 | | | | | | - | | | - | | | | |
| 37 | | Depreciable Plant | | | | | | | | | 837,223 | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | 3.9386% | | |
| 39 | | | | | | | | | | | | | |
| 40 | | ¹ Per Staff Depreciation Calculation | | | | | | | | | | | |

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2011 | | | | | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Unbooked Retirements | | | | | |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | - | 110 | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | - | - | - | - | - | - | 1,949 | 58,521 | 16,737 | 41,784 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | - | - | - | - | - | 1,281 | 38,472 | 24,329 | 14,143 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | 912 | - | 912 | - | - | - | 23 | 912 | 23 | 889 |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | - | 13,034 | 104,270 | 94,622 | 9,648 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | - | 415 | 2,077 | 2,005 | 71 |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 2.22% | - | - | - | - | - | - | 1,563 | 70,417 | 7,571 | 62,846 |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | - | 2,761 | 55,213 | 37,682 | 17,532 |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | - | - | - | - | - | - | 8,303 | 415,165 | 244,369 | 170,796 |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | - | 1,860 | 55,853 | 35,320 | 20,533 |
| 20 | 334 | Meters | 8.33% | - | - | - | - | - | - | 505 | 6,062 | 3,015 | 3,047 |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | - | 175 | 8,774 | 5,199 | 3,576 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | - | 68 | 1,027 | 752 | 275 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | - | 324 | 4,850 | 3,553 | 1,297 |
| 24 | 340 | Office Furniture & Equipment | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | - | 700 | 3,500 | 1,050 | 2,450 |
| 26 | 341 | Transportation Equipment | 20.00% | 7,456 | - | 7,456 | - | - | - | 746 | 7,456 | 746 | 6,711 |
| 27 | 342 | Stores Equipment | 4.00% | - | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | - | - | - | - | - | - | 250 | 5,000 | 3,412 | 1,588 |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | - | 800 | 8,003 | 1,783 | 6,220 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | - | 1 | 20 | 20 | 0 |
| 34 | | | | | | | | | | | | | |
| 35 | | TOTAL | | 8,369 | - | 8,369 | - | - | - | 34,759 | 845,702 | 482,187 | 363,515 |
| 36 | | | | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | | | 845,592 | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | 4.1106% | | |
| 39 | | | | | | | | | | | | | |

¹ Per Staff Depreciation Calculation

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2012 | | | | | | | | | |
|----------|-------------------|---|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------|----------------------------|------------------|---------------------------|---------------|----------------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Unbooked Retirements | Adjusted Plant Retirements | Salvage A/D Only | Depreciation [Calculated] | Plant Balance | Accum. Deprec. |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | - | - | 110 | - |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | - | - | - | - | - | - | - | 1,949 | 58,521 | 18,686 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | - | - | - | - | - | - | 1,281 | 38,472 | 25,610 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | - | - | - | - | - | - | - | 46 | 912 | 68 |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | - | - | 9,648 | 104,270 | 104,270 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | - | - | 71 | 2,077 | 2,077 |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 2.22% | - | - | - | - | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | - | - | - | - | - | - | - | - | - | - |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 20 | 334 | Meters | 8.33% | 590 | - | 590 | - | - | - | - | - | - | - |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | - | - | - | - | - |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 24 | 340 | Office Furniture & Equipment | 20.00% | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 4.00% | - | - | - | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 32 | 347 | Miscellaneous Equipment | 20.00% | - | - | - | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | - | - | - | 20 | 20 |
| 34 | | | | 590 | - | 590 | - | - | - | - | - | 846,292 | 514,007 |
| 35 | | TOTAL | | | | | | | | | 31,820 | | |
| 36 | | | | | | | | | | | | 846,182 | |
| 37 | | Depreciable Plant | | | | | | | | | | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | | | |
| 39 | | | | | | | | | | | | | |
| 40 | | ¹ Per Staff Depreciation Calculation | | | | | | | | | | | |

¹ Per Staff Depreciation Calculation

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2013 | | | | | | Salvage A/D Only | Depreciation [Calculated] | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------------|----------------------------|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Adjusted Plant Retirements | Adjusted Plant Retirements | | | | | |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | - | - | 110 | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | - | - | - | - | - | - | - | 1,949 | 58,521 | 20,635 | 37,886 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | 539 | 539 | - | - | - | - | 1,290 | 39,011 | 26,900 | 12,111 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | - | - | - | - | - | - | - | 46 | 912 | 114 | 798 |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | - | - | - | 104,270 | 104,270 | 0 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | - | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | - | - | - | 2,077 | 2,077 | (0) |
| 16 | 330.1 | Storage Tanks | 2.22% | - | - | - | - | - | - | - | 1,563 | 70,417 | 10,697 | 59,720 |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | - | - | 2,761 | 55,213 | 43,203 | 12,010 |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | - | - | - | - | - | - | - | 8,303 | 415,165 | 260,975 | 154,190 |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | - | - | 1,860 | 55,853 | 39,040 | 16,813 |
| 20 | 334 | Meters | 8.33% | - | - | - | - | - | - | - | 554 | 6,652 | 4,099 | 2,554 |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | - | - | 175 | 8,774 | 5,550 | 3,225 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | - | - | 68 | 1,027 | 889 | 138 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | - | - | 324 | 4,850 | 4,200 | 650 |
| 24 | 340 | Office Furniture & Equipment | 6.67% | - | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | - | - | 700 | 3,500 | 2,450 | 1,050 |
| 26 | 341 | Transportation Equipment | 20.00% | 19,000 | - | 19,000 | - | - | - | - | 3,391 | 26,456 | 5,628 | 20,828 |
| 27 | 342 | Stores Equipment | 4.00% | - | - | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | 149 | (149) | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | - | - | - | - | - | - | - | 250 | 5,000 | 3,912 | 1,088 |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | - | - | 800 | 8,003 | 3,383 | 4,620 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | - | - | - | 20 | 20 | 0 |
| 34 | | | | | | | | | | | | | | |
| 35 | | TOTAL | | 149 | 19,390 | 19,539 | - | - | - | - | 24,035 | 865,831 | 538,041 | 327,789 |
| 36 | | | | | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | | | | 865,721 | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | | 2.7763% | | |
| 39 | | | | | | | | | | | | | | |

40 ¹ Per Staff Depreciation Calculation

| | | |
|------------|-------------------------------------|------------------------|
| Line | | |
| <u>No.</u> | | |
| 1 | | |
| 2 | Operation and Maintenance Expense | \$ 60,410 |
| 3 | Less depreciation, taxes, purchased | |
| 4 | power and purchased water | |
| 5 | Factor - 1/8 | <u>0.1250</u> |
| 6 | | \$ 7,551 |
| 7 | | |
| 8 | Purchased Power and Purchased Water | \$ 9,139 |
| 9 | Factor - 1/24 | <u>0.0417</u> |
| 10 | | \$ 381 |
| 11 | | |
| 12 | Total Cash Working Capital | <u><u>\$ 7,932</u></u> |
| 13 | | |
| 14 | | |

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Adjusted Test Year Income Statement

Schedule RLJ-3

Rebuttal

Page 1

| Line No. | | Actual for Test Year Ended <u>12/31/2013</u> | Total Pro forma <u>Adjustments</u> | Test Year Results After Pro forma <u>Adjustments</u> | Proposed Rate <u>Increase</u> | Adjusted With Rate <u>Increase</u> |
|-------------|---|---|--|--|-------------------------------------|--|
| 1 | Revenues | | | | | |
| 2 | 460 Unmetered Water Revenue | \$ - | \$ - | \$ - | - | \$ - |
| 3 | 461 Metered Water Revenues | 112,585 | 1,561 | 114,145 | 59,950 | 174,096 |
| 4 | 471 Miscellaneous Service Revenue | 3,174 | - | 3,174 | - | 3,174 |
| 5 | Total Revenues | <u>\$ 115,759</u> | <u>\$ 1,561</u> | <u>\$ 117,320</u> | <u>\$ 59,950</u> | <u>\$ 177,270</u> |
| 6 | Operating Expenses | | | | | |
| 7 | 601 Salaries and Wages | \$ 39,942 | \$ (8,618) | \$ 31,324 | | \$ 31,324 |
| 8 | 603 Salaries and Wages - Officers and Directors | - | 6,440 | 6,440 | | 6,440 |
| 9 | 604 Employee Pension and Benefits | - | - | - | | - |
| 10 | 610 Purchased Water | - | - | - | | - |
| 11 | 615 Purchased Power | 8,950 | 190 | 9,139 | | 9,139 |
| 12 | 618 Chemicals | 47 | 45 | 92 | | 92 |
| 13 | 620 Repairs and Maintenance | 4,339 | (2,433) | 1,906 | | 1,906 |
| 14 | 621 Office Supplies Expense | 8,314 | (3,876) | 4,437 | | 4,437 |
| 15 | 631 Contractual Services - Engineering | - | - | - | | - |
| 16 | 632 Contractual Services - Accounting | - | - | - | | - |
| 17 | 633 Contractual Services - Legal | - | - | - | | - |
| 18 | 634 Contractual Services - Management Fees | - | - | - | | - |
| 19 | 635 Contractual Services - Testing | 5,380 | (3,530) | 1,850 | | 1,850 |
| 20 | 636 Contractual Services - Other | 11,353 | (6,709) | 4,644 | | 4,644 |
| 21 | 641 Rent - Buildings | - | 2,194 | 2,194 | | 2,194 |
| 22 | 642 Rent - Equipment | - | - | - | | - |
| 23 | 650 Transportation Expense | 5,453 | (1,214) | 4,239 | | 4,239 |
| 24 | 656 Insurance - Vehicle | - | - | - | | - |
| 25 | 657 Insurance - General Liability | 1,292 | 282 | 1,574 | | 1,574 |
| 26 | 658 Insurance - Workman's Compensation | - | - | - | | - |
| 27 | 659 Insurance - Other | - | 520 | 520 | | 520 |
| 28 | 660 Advertising Expense | - | - | - | | - |
| 29 | 666 Regulatory Commission Expense - Rate Case | - | 10,000 | 10,000 | | 10,000 |
| 30 | 667 Regulatory Expense - Other | 321 | - | 321 | | 321 |
| 31 | 668 Water Resource Conservation Expense | - | - | - | | - |
| 32 | 670 Bad Debt Expense | - | 772 | 772 | 395 | 1,167 |
| 33 | 675 Miscellaneous Expense | 840 | (744) | 96 | | 96 |
| 34 | 403 Depreciation Expense | 33,874 | (207) | 33,667 | | 33,667 |
| 35 | 408 Taxes Other Than Income | - | 2,765 | 2,765 | | 2,765 |
| 36 | 408.11 Property Taxes | 1,619 | 2,791 | 4,410 | 826 | 5,236 |
| 37 | 409 Income Tax | - | (379) | (379) | 9,141 | 8,762 |
| 38 | Total Operating Expenses | <u>\$ 121,723</u> | <u>\$ (1,710)</u> | <u>\$ 120,013</u> | <u>\$ 10,362</u> | <u>\$ 130,375</u> |
| 39 | Operating Income | <u>\$ (5,964)</u> | <u>\$ 3,270</u> | <u>\$ (2,694)</u> | <u>\$ 49,589</u> | <u>\$ 46,895</u> |
| 40 | Other Income (Expense) | | | | | |
| 41 | 419 Interest and Dividend Income | \$ - | \$ - | \$ - | | \$ - |
| 42 | 421 Non-Utility Income | 59 | - | 59 | | 59 |
| 43 | 426 Miscellaneous Non-Utility Expenses | - | - | - | | - |
| 44 | 427 Interest Expense | (34) | 34 | - | | - |
| 45 | Total Other Income (Expense) | <u>\$ 24</u> | <u>\$ 34</u> | <u>\$ 59</u> | <u>\$ -</u> | <u>\$ 59</u> |
| 46 | Net Income (Loss) | <u>\$ (5,940)</u> | <u>\$ 3,305</u> | <u>\$ (2,635)</u> | <u>\$ 49,589</u> | <u>\$ 46,954</u> |
| 47 | | | | | | |

Schedule RJ-3
Rebuttal
Page 2

| Line No. | Actual for Test Year Ended 12/31/2013 | ADJ IS-1 Eliminate Revenue Adjustments | ADJ IS-2 Correct Underbilled Revenue | ADJ IS-3 2014 Salary Increase | ADJ IS-4 Reclass Cust. Deposit Interest | ADJ IS-5 Reclass Bad Debt Expense | Rebuttal Adjustments | | | Witness: |
|--------------------|---|--|--|-------------------------------------|---|---|----------------------|-------------------------|---------------------|------------------|
| | | | | | | | Staff Adj. No. 1 | Staff Adj. No. 2 - 6 | Staff Adj. No. 7 | |
| | | | | | | | | | | |
| Revenues | | | | | | | | | | |
| 1 | \$ | - | | | | | | | | |
| 460 | Unmetered Water Revenue | | | | | | | | | |
| 2 | 112,585 | 1,040 | 647 | | | | | | | |
| 3 | 3,174 | | | | | | | | | |
| 4 | \$ | 115,759 \$ | 1,040 \$ | 647 \$ | - \$ | - \$ | - \$ | - \$ | - \$ | - \$ |
| Total Revenues | | | | | | | | | | |
| 5 | | | | | | | | | | |
| Operating Expenses | | | | | | | | | | |
| 6 | 39,942 | | \$ | 5,000 | | | | | | |
| 601 | Salaries and Wages | | | | | | | | | |
| 603 | Salaries and Wages - Officers and Directors | | | | | | | | | |
| 7 | - | | | | | | | | | |
| 604 | Employee Pension and Benefits | | | | | | | | | |
| 9 | 610 Purchased Water | | | | | | | | | |
| 10 | 615 Purchased Power | | | | | | | | | |
| 11 | 618 Chemicals | | | | | | | | | |
| 12 | 620 Repairs and Maintenance | | | | | | | | | |
| 13 | 621 Office Supplies Expense | | | | | | | | | |
| 14 | 631 Contractual Services - Engineering | | | | | | | | | |
| 15 | 632 Contractual Services - Accounting | | | | | | | | | |
| 16 | 633 Contractual Services - Legal | | | | | | | | | |
| 17 | 634 Contractual Services - Management Fees | | | | | | | | | |
| 18 | 635 Contractual Services - Testing | | 5,380 | | | | | | | |
| 19 | 636 Contractual Services - Other | | 11,353 | | | | | | | |
| 20 | 641 Rent - Buildings | | - | | | | | | | |
| 21 | 642 Rent - Equipment | | - | | | | | | | |
| 22 | 650 Transportation Expense | | 5,453 | | | | | | | |
| 23 | 656 Insurance - Vehicle | | - | | | | | | | |
| 24 | 657 Insurance - General Liability | | 1,292 | | | | | | | |
| 25 | 658 Insurance - Workman's Compensation | | - | | | | | | | |
| 26 | 659 Insurance - Other | | - | | | | | | | |
| 27 | 660 Advertising Expense | | - | | | | | | | |
| 28 | 666 Regulatory Commission Expense - Rate Case | | - | | | | | | | |
| 29 | 667 Regulatory Expense - Other | | 321 | | | | | | | |
| 30 | 668 Water Resource Conservation Expense | | - | | | | | | | |
| 31 | 670 Bad Debt Expense | | - | | | | | | | |
| 32 | 675 Miscellaneous Expense | | 840 | | | | | | | |
| 33 | 403 Depreciation Expense | | 33,874 | | | | | | | |
| 34 | 408 Taxes Other Than Income | | - | | | | | | | |
| 35 | 408 Property Taxes | | 1,619 | | | | | | | |
| 36 | 409 Income Tax | | - | | | | | | | |
| 37 | Total Operating Expenses | \$ | 121,723 \$ | - \$ | 5,000 \$ | 34 \$ | - \$ | - \$ | (15,480) \$ | 6,667 \$ (3,470) |
| 38 | Operating Income | \$ | (5,964) \$ | 647 \$ | (5,000) \$ | (34) \$ | - \$ | - \$ | 15,480 \$ | (6,667) \$ 3,470 |
| 39 | Other Income (Expense) | | | | | | | | | |
| 40 | 419 Interest and Dividend Income | \$ | - | | | | | | | |
| 41 | 421 Non-Utility Income | | 59 | | | | | | | |
| 42 | 426 Miscellaneous Non-Utility Expenses | | - | | | | | | | |
| 43 | 427 Interest Expense | | (34) | | | | | | | |
| 44 | Total Other Income (Expense) | \$ | 24 \$ | - \$ | - \$ | 34 \$ | - \$ | - \$ | - \$ | - \$ |
| 45 | Net Income (Loss) | \$ | (5,940) \$ | 647 \$ | (5,000) \$ | - \$ | - \$ | - \$ | 15,480 \$ | (6,667) \$ 3,470 |

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Pro forma Adjustments

Schedule RLJ-3
Rebuttal
Page 3

| Line No. | Revenues | Updated Rebuttal Adjustments | | | | | Test Year Adjusted Results |
|----------|---|--|--|--|---|----------------------|----------------------------|
| | | ADJ IS-6 Rate Case Expense | ADJ IS-7 Adjust Depreciation Expense | ADJ IS-8 Adjust Property Taxes | ADJ IS-9 Income Tax Allowance | Total Adjustments | |
| 1 | 450 Unmetered Water Revenue | | | | | \$ - | \$ - |
| 2 | 461 Metered Water Revenues | | | | | 1,561 | 114,145 |
| 3 | 471 Miscellaneous Service Revenue | | | | | - | 3,174 |
| 4 | Total Revenues | \$ - | \$ - | \$ - | \$ - | 1,561 | 117,320 |
| 5 | Operating Expenses | | | | | | |
| 6 | 601 Salaries and Wages | | | | | \$ (8,618) | \$ 31,324 |
| 7 | 603 Salaries and Wages - Officers and Directors | | | | | 6,440 | 6,440 |
| 8 | 604 Employee Pension and Benefits | | | | | - | - |
| 9 | 610 Purchased Water | | | | | - | - |
| 10 | 615 Purchased Power | | | | | 190 | 9,139 |
| 11 | 618 Chemicals | | | | | 45 | 92 |
| 12 | 620 Repairs and Maintenance | | | | | (2,433) | 1,906 |
| 13 | 621 Office Supplies Expense | | | | | (3,876) | 4,437 |
| 14 | 631 Contractual Services - Engineering | | | | | - | - |
| 15 | 632 Contractual Services - Accounting | | | | | - | - |
| 16 | 633 Contractual Services - Legal | | | | | - | - |
| 17 | 634 Contractual Services - Management Fees | | | | | - | - |
| 18 | 635 Contractual Services - Testing | | | | | (3,530) | 1,850 |
| 19 | 636 Contractual Services - Other | | | | | (6,709) | 4,644 |
| 20 | 641 Rent - Buildings | | | | | 2,194 | 2,194 |
| 21 | 642 Rent - Equipment | | | | | (1,214) | 4,239 |
| 22 | 650 Transportation Expense | | | | | - | - |
| 23 | 656 Insurance - Vehicle | | | | | 282 | 1,574 |
| 24 | 657 Insurance - General Liability | | | | | - | - |
| 25 | 658 Insurance - Workman's Compensation | | | | | - | - |
| 26 | 659 Insurance - Other | | | | | 520 | 520 |
| 27 | 660 Advertising Expense | | | | | - | - |
| 28 | 666 Regulatory Commission Expense - Rate Case | 3,333 | | | | 10,000 | 10,000 |
| 29 | 667 Regulatory Expense - Other | | | | | 321 | 321 |
| 30 | 668 Water Resource Conservation Expense | | | | | - | - |
| 31 | 670 Bad Debt Expense | | | | | 772 | 772 |
| 32 | 675 Miscellaneous Expense | | | | | (744) | 96 |
| 33 | 403 Depreciation Expense | | (207) | | | (207) | 33,667 |
| 34 | 408 Taxes Other Than Income | | | | | 2,765 | 2,765 |
| 35 | 408 Property Taxes | | | 2,791 | | 2,791 | 4,410 |
| 36 | 409 Income Tax | | | | (379) | (379) | |
| 37 | Total Operating Expenses | \$ 3,333 | \$ (207) | \$ 2,791 | \$ (379) | \$ (1,710) | \$ 120,013 |
| 38 | Operating Income | \$ (3,333) | \$ 207 | \$ (2,791) | \$ 379 | \$ 3,270 | \$ (2,694) |
| 39 | Other Income (Expense) | | | | | | |
| 40 | 419 Interest and Dividend Income | | | | | \$ - | \$ - |
| 41 | 421 Non-Utility Income | | | | | - | 59 |
| 42 | 426 Miscellaneous Non-Utility Expenses | | | | | - | - |
| 43 | 427 Interest Expense | | | | | 34 | - |
| 44 | Total Other Income (Expense) | \$ - | \$ - | \$ - | \$ - | \$ 34 | \$ 59 |
| 45 | Net Income (Loss) | \$ (3,333) | \$ 207 | \$ (2,791) | \$ 379 | \$ 3,305 | \$ (2,635) |

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Adjustment IS-1

Schedule RLJ-3
Rebuttal
Page 4

Line

No.

1 Eliminate Revenue Adjustments

2

3 Eliminate various nonrecurring revenue adjustments

4

As Booked

5 Prior Period Adjustment - 5/8" x 3/4" Meter Revenue \$ (1,564.42)

6 Non Bill Usage - Residential (70.33)

7 J.E. Error (30.00)

8 Prior Period Adjustment - Other (3.00)

9 Prior Period Adjustment - Other (7,900.21)

10 Prior Period Adjustment - Other 8,527.58

11 \$ (1,040.38)

12

13 Increase/(Decrease) in Metered \$ 1,040.38

14

Line

No.

1 Correct Underbilled Revenue

2

3 For the 5/8" x 3/4" Class, usage between 10,001 gallons and 14,000 gallons
4 was billed at \$6.60 per 1,000 gallons rather than \$7.90 per 1,000 gallons.

5

6 5/8" x 3/4" Class usage between 10,001 gallons and 14,000 gallons

497,860 gallons

7 Rate Differential

\$ -

\$ 1.30

8 Underbilled Revenue

647.22

9

10

11 Increase/(Decrease) in Metered Revenue

\$ 647.22

12

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Adjustment IS-3

Schedule RLJ-3
Rebuttal
Page 6

Line

No.

1 Adjust for 2014 Salary Increase

2

3 Total 2014 increase in employee salary \$ 20,000.00

4 Percentage Allocated to Granite Mountain 25%

5 Salary increase for Granite Mountain \$ 5,000.00

6

7 Increase/(Decrease) in Salaries and Wages

\$ 5,000.00

8

9

Line

No.

1 Reclass Customer Deposit Interest

2

3

4 Customer Deposit Interest Charged to Interest Expense

34.35

5

6 Increase/(Decrease) in Interest Expense

\$ (34.35)

7

8 Increase/(Decrease) in Miscellaneous Expense

\$ 34.35

9

10

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Income Statement Adjustment IS-5

Schedule RLJ-3
Rebuttal
Page 8

Line

No.

1 Reclass Bad Debt Expense

2

3

5 Customer Bad Debt Charged to Miscellaneous Expense

772.17

6

7 Increase/(Decrease) in Miscellaneous Expense

\$ (772.17)

8

9 Increase/(Decrease) in Bad Debt Expense

\$ 772.17

10

11

12

13

14

15

Adjust Rate Case Expense

| | | | |
|------------|--|----|--------|
| Line | | | |
| <u>No.</u> | | | |
| 1 | Estimated Rate Case Expense | \$ | 10,000 |
| 2 | | | |
| 3 | Amortization Period (Years) | | 3 |
| 4 | | | |
| 5 | Annualized Rate Case Expense | \$ | 3,333 |
| 6 | | | |
| 7 | Test Year Rate Case Expense | | - |
| 8 | | | |
| 9 | Increase / (Decrease) in Rate Case Expense | | 3,333 |
| 10 | | | |

Adjust Depreciation Expense to Reflect Adjusted Plant Balances

| Line No. | Acct Description | Adjusted Test Year Balance 12/31/2013 | Fully Depreciated Plant | Depreciable Plant | Proposed Depreciation Rate | Depreciation Expense |
|----------|---|--|-------------------------|-------------------|----------------------------|----------------------|
| 1 | | | | | | |
| 2 | 301 Organization Cost | \$ 110 | | \$ 110 | 0.00% | \$ - |
| 3 | 302 Franchise Cost | - | | - | 0.00% | - |
| 4 | 3 Land and Land Rights | 48,500 | | 48,500 | 0.00% | - |
| 5 | 304 Structures & Improvements | 79,894 | | 79,894 | 3.33% | 2,660 |
| 6 | 305 Collecting & Impounding Reservoirs | - | | - | 2.50% | - |
| 7 | 306 Lake, River, Canal Intakes | - | | - | 2.50% | - |
| 8 | 307 Wells & Springs | 60,946 | | 60,946 | 3.33% | 2,030 |
| 9 | 308 Infiltration Galleries | - | | - | 6.67% | - |
| 10 | 309 Raw Water Supply Mains | - | | - | 2.00% | - |
| 11 | 310 Power Generation Equipment | 912 | | 912 | 5.00% | 46 |
| 12 | 311 Pumping Equipment | 121,906 | (104,270) | 17,637 | 12.50% | 2,205 |
| 13 | 320 Water Treatment Equipment | - | | - | 3.33% | - |
| 14 | 320.1 Water Treatment Plants | - | | - | 3.33% | - |
| 15 | 320.2 Solution Chemical Feeders | 7,745 | (2,077) | 5,669 | 20.00% | 1,134 |
| 16 | 330 Distribution Reservoirs & Standpipes | - | | - | 2.22% | - |
| 17 | 330.1 Storage Tanks | 170,247 | | 170,247 | 2.22% | 3,779 |
| 18 | 330.2 Pressure Tanks | 55,213 | | 55,213 | 5.00% | 2,761 |
| 19 | 331 Transmission & Distribution Mains | 450,034 | | 450,034 | 2.00% | 9,001 |
| 20 | 333 Services | 55,934 | | 55,934 | 3.33% | 1,863 |
| 21 | 334 Meters | 6,652 | | 6,652 | 8.33% | 554 |
| 22 | 335 Hydrants | 8,774 | | 8,774 | 2.00% | 175 |
| 23 | 336 Backflow Prevention Devices | 1,428 | | 1,428 | 6.67% | 95 |
| 24 | 339 Other Plant & Misc Equipment | 4,850 | | 4,850 | 6.67% | 324 |
| 25 | 340 Office Furniture & Equipment | - | | - | 6.67% | - |
| 26 | 340.1 Computers & Software | 3,500 | | 3,500 | 20.00% | 700 |
| 27 | 341 Transportation Equipment | 26,456 | | 26,456 | 20.00% | 5,291 |
| 28 | 342 Stores Equipment | - | | - | 4.00% | - |
| 29 | 343 Tools, Shop & Garage Equipment | - | | - | 5.00% | - |
| 30 | 344 Laboratory Equipment | - | | - | 10.00% | - |
| 31 | 345 Power Operated Equipment | 5,000 | | 5,000 | 5.00% | 250 |
| 32 | 346 Communication Equipment | 8,003 | | 8,003 | 10.00% | 800 |
| 33 | 347 Miscellaneous Equipment | - | | - | 10.00% | - |
| 34 | 348 Other Tangible Plant | 20 | (20) | 0 | 20.00% | - |
| 35 | TOTALS | \$ 1,116,126 | \$ (106,366) | \$ 1,009,760 | | \$ 33,667 |
| 36 | | | | | | |
| 37 | Less: Amortization of CIAC | \$ - | | | 3.5028% | \$ - |
| 38 | | | | | | |
| 39 | Adjusted Test Year Depreciation Expense | | | | | \$ 33,667 |
| 40 | | | | | | |
| 41 | Test Year Depreciation Expense | | | | | \$ 33,874 |
| 42 | | | | | | |
| 43 | Increase / (Decrease) in Depreciation Expense | | | | | \$ (207) |

Adjust Property Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

| Line No. | Description | Company As Adjusted | Company Proposed |
|-------------|---|------------------------|--|
| 1 | Adjusted Test Year Revenue | \$ 117,320 | \$ 117,320 |
| 2 | Adjusted Test Year Revenue | 117,320 | 117,320 |
| 3 | Adjusted Test Year Revenue | 117,320 | |
| 4 | Proposed Revenues after Increase | | 177,270 |
| 5 | Average of three year's of revenue | 117,320 | 137,303 |
| 6 | Average of three year's of revenue, times 2 | 234,639 | 274,606 |
| 7 | Add: | | |
| 8 | Construction Work In Progress at 10% | - | - |
| 9 | Deduct: | | |
| 10 | Net Book Value of Transportation Equipment | 21,165 | 21,165 |
| 11 | | | |
| 12 | Full Cash Value | 213,474 | 253,441 |
| 13 | Assessment Ratio | 18.5% | 18.5% |
| 14 | Assessed Value | 39,493 | 46,887 |
| 15 | Property Tax Rate (2012 Tax Year) | 11.1667% | 11.1667% |
| 16 | | | |
| 17 | Adjusted Test Year Property Tax | \$ 4,410 | |
| 18 | Recorded Test Year Property Tax | 1,619 | |
| 19 | Test Year Adjustment | \$ 2,791 | |
| 20 | | | |
| 21 | Property Tax at Proposed Rates | | \$ 5,236 |
| 22 | Adjusted Test Year Property Tax | | 4,410 |
| 23 | Increase in Property Tax due to Rate Increase | | \$ 826 |
| 24 | | | |
| 25 | <u>Calculation of Property Tax Factor</u> | | |
| 26 | Increase to Property Tax Expense | | \$ 826 |
| 27 | Increase in Revenue Requirement | | \$ 59,950 |
| 28 | Property Tax Factor (L25 / L26) | | 1.3772% |
| 29 | | | |
| 30 | | 2013 | |
| 31 | CALCULATION OF TAX RATE | <u>Value</u> | <u>Ratio</u> <u>Tax Value</u> <u>Tax</u> <u>Rate</u> |
| 32 | 923-70-190 | 157,000 | 19.5% 30,615 3,419 11.1667% |

Adjust Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

| Line No. | Description | Adjusted Test Year | Proposed with Increase |
|----------|--|--------------------|------------------------|
| 1 | | | |
| 2 | <u>Calculation of Income Tax:</u> | | |
| 3 | Revenue | \$ 117,320 | \$ 177,270 |
| 4 | Less: Operating Expenses (Excluding Income Taxes) | 120,392 | 121,613 |
| 5 | Less: Synchronized Interest | | - |
| 6 | Arizona Taxable Income | \$ (3,073) | \$ 55,657 |
| 7 | <u>AZ - Individual Tax Calculation (Married Filing Jointly - 2015)</u> | | |
| 8 | <u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u> | | |
| 9 | \$ - \$ 20,000 \$ - 2.5900% | \$ (80) | \$ - |
| 10 | 20,000 50,000 (58.00) 2.8800% | - | - |
| 11 | 50,000 100,000 (298.00) 3.3600% | - | 1,572 |
| 12 | 100,000 300,000 (1,178.00) 4.2400% | - | - |
| 13 | 300,000 999,999,999 (2,078.00) 4.5400% | - | - |
| 14 | Arizona Income Tax | \$ (80) | \$ 1,572 |
| 15 | Federal Taxable Income | \$ (2,993) | \$ 54,085 |
| 16 | <u>Federal - Individual Tax Calculation (Married Filing Jointly - 2015)</u> | | |
| 17 | <u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u> | | |
| 18 | \$ - \$ 18,450 \$ - 10.0000% | \$ (299) | \$ - |
| 19 | 18,450 74,900 1,845.00 15.0000% | - | 7,190 |
| 20 | 74,900 151,200 10,312.50 25.0000% | - | - |
| 21 | 151,200 230,450 29,387.50 28.0000% | - | - |
| 22 | 230,450 411,500 51,577.50 33.0000% | - | - |
| 23 | 411,500 464,850 111,324.00 35.0000% | - | - |
| 24 | 464,850 9,999,999,999 129,996.50 39.6000% | | |
| 25 | | | |
| 26 | Total Federal Income Tax | \$ (299) | \$ 7,190 |
| 27 | | | |
| 28 | Combined Federal and State Income Tax | \$ (379) | \$ 8,762 |
| 29 | | | |
| 30 | Effective State Tax Rate | 2.5900% | 2.8246% |
| 31 | Effective Federal Tax Rate | 10.0000% | 13.2944% |
| 32 | Effective Combined Tax Rate | 12.3310% | 15.7434% |
| 33 | | | |
| 34 | Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase) | | 2.8123% |
| 35 | Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase) | | 13.1216% |
| 36 | | | |
| 37 | <u>Calculation of Interest Synchronization</u> | | |
| 38 | Rate Base \$ 583,926 | | |
| 39 | Weighted Average Cost of Debt | | |
| 40 | Synchronized Interest \$ - | | |
| 41 | | | |
| 42 | <u>Income Tax Adjustments</u> | | |
| 43 | Test Year Income Taxes - Booked | \$ - | |
| 44 | Increase / (decrease) in Income Taxes (L21 - L32) | (379) | |
| 45 | | | |
| 46 | Test Year Income Taxes - Adjusted | | \$ (379) |
| 47 | Increase / (decrease) in Federal Income Taxes (L21 - L35) | | 9,141 |
| 48 | | | |
| 49 | | | |

Line

No. Calculation of Gross Revenue Conversion Factor

| | | |
|---|---|-----------|
| 1 | Revenue | 100.0000% |
| 2 | Uncollectable Factor (Line 11) | 0.5557% |
| 3 | Revenue (L1 - L2) | 99.4443% |
| 4 | Combined Income Tax and Property Tax Rate (Line 23) | 16.7278% |
| 5 | Operating Income Percentage (L3 -L4) | 82.7165% |
| 6 | Gross Revenue Conversion Factor (L1 / L5) | 1.208949 |

Calculation of Uncollectable Factor

| | | |
|----|---|-----------|
| 7 | Unity | 100.0000% |
| 8 | Combined Federal and State Tax Rate (Line 17) | 15.5649% |
| 9 | One Minus Combined Federal and State Tax Rate (L7 - L8) | 84.4351% |
| 10 | Uncollectable Rate (Line 26) | 0.6582% |
| 11 | Uncollectable Factor (L9 * L10) | 0.5557% |

Calculation of Effective Tax Rate

| | | |
|----|---|-----------|
| 12 | Operating Income Before Taxes | 100.0000% |
| 13 | Applicable Arizona State Tax Rate (from Schedule C-2) | 2.8123% |
| 14 | Federal Taxable Income (L12 - L13) | 97.1877% |
| 15 | Applicable Federal Tax Rate (from Schedule C-2) | 13.1216% |
| 16 | Effective Federal Tax Rate (L14 * L15) | 12.7526% |
| 17 | Combined Federal and State Tax Rate (L13 + L16) | 15.5649% |

Calculation of Effective Property Tax Rate

| | | |
|----|--|-----------|
| 18 | Unity | 100.0000% |
| 19 | Combined Federal and State Tax Rate (Line 17) | 15.5649% |
| 20 | One Minus Combined Income Tax Rate (L18 - L19) | 84.4351% |
| 21 | Property Tax Factor (from Schedule C-2) | 1.3772% |
| 22 | Effective Property Tax Factor (L20 * L21) | 1.1629% |
| 23 | Combined Federal and State Income Tax Rate and Property Tax Rate (L17 + L22) | 16.7278% |

Calculation of Uncollectable Rate

| | | |
|----|--------------------------------------|-----------|
| 24 | Bad Debt Expense (from Schedule C-1) | \$ 772 |
| 25 | Total Revenues (from Schedule C-1) | 117,320 |
| 26 | Uncollectable Rate (L24 / L25) | 0.6582% |
| 27 | Revenue Increase (from Schedule C-1) | \$ 59,950 |
| 28 | Uncollectable Rate (Line 26) | 0.6582% |
| 29 | Bad Debt Expense due to Increase | \$ 395 |

[illegible]

Line
No.

| | Present | Proposed |
|--|--|--|
| 1 Other Service Charges | Rates | Rates |
| 2 | | |
| 3 Establishment | \$ 25.00 | \$ 25.00 |
| 4 Establishment (After Hours) | \$ 35.00 | n/t |
| 5 Reconnection (Delinquent) | \$ 35.00 | \$ 35.00 |
| 6 Reconnection (Delinquent) (After Hours) | \$ 45.00 | n/t |
| 7 After Hours Charge | n/t | \$ 25.00 |
| 8 Meter Test (If correct) | \$ 35.00 | \$ 35.00 |
| 9 Deposit Requirement | 2 times the average bill | 2 times the average bill |
| 10 Deposit Interest | 6% per year | 6% per year |
| 11 Re-Establishment (Within 12 Months) | Number of Months off system times the monthly minimum charge | Number of Months off system times the monthly minimum charge |
| 12 NSF Check | \$ 20.00 | \$ 20.00 |
| 13 Deferred Payment, Per Month | 1.5% | 1.5% |
| 14 Meter Re-Read (If correct) | \$ 15.00 | \$ 15.00 |
| 15 Moving Customer Meter at Customer Request | Cost | Cost |
| 16 Late Charge per month | 1.50% | 1.50% |
| 17 | | |
| 18 In addition to the collection of regular rates, the utility will collect from its | | |
| 19 customers a proportionate share of any privilege, sales, use, and franchise tax, | | |
| 20 per Commission rule A.A.C. 14-2-409(D)(5). | | |
| 21 | | |

22 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.

23
24 n/t - no tariff

25
26 **Service Line and Meter Installation Charges**

| | Present Rates | | | Proposed Rates | | |
|----------------------|------------------|--------------|--------------|------------------|--------------|--------------|
| | <u>Srv. Line</u> | <u>Meter</u> | <u>Total</u> | <u>Srv. Line</u> | <u>Meter</u> | <u>Total</u> |
| 27 | | | | | | |
| 28 5/8" x 3/4" Meter | \$ 405 | \$ 95 | \$ 500 | \$ 450 | \$ 150 | \$ 600 |
| 29 3/4" Meter | \$ 413 | \$ 162 | \$ 575 | \$ 450 | \$ 250 | \$ 700 |
| 30 1" Meter | \$ 441 | \$ 209 | \$ 650 | \$ 575 | \$ 300 | \$ 875 |
| 31 1 1/2" Meter | \$ 395 | \$ 321 | \$ 716 | \$ 675 | \$ 500 | \$ 1,175 |
| 32 2" Meter | \$ 727 | \$ 845 | \$ 1,572 | \$ 1,000 | \$ 1,500 | \$ 2,500 |
| 34 3" Meter | \$ 952 | \$ 1,448 | \$ 2,400 | \$ 1,300 | \$ 2,000 | \$ 3,300 |
| 36 4" Meter | \$ 1,310 | \$ 2,206 | \$ 3,516 | \$ 1,800 | \$ 3,500 | \$ 5,300 |
| 38 6" Meter | \$ 2,160 | \$ 4,756 | \$ 6,916 | \$ 2,800 | \$ 6,000 | \$ 8,800 |
| 42 | | | | | | |

43 All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes,
44 including gross-up taxes for Federal and State taxes, if applicable.

45
46 All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes.

47
48 n/t - no tariff

49

| Line No. | Description | Average Number Customers | Average Consumption | Revenues | | Proposed | |
|-------------|------------------------------|--------------------------------|------------------------|-------------------|-------------------|--------------------|---------------|
| | | | | Present Rates | Proposed Rates | Increase Amount | Increase % |
| 1 | | | | | | | |
| 2 | <u>Metered Water Revenue</u> | | | | | | |
| 3 | R1 - 5/8" x 3/4" Meter | 85 | 6,411 | \$ 64,502 | \$ 99,298 | \$ 34,796 | 53.95% |
| 4 | R2 - 3/4" Meter | - | - | - | - | - | - |
| 6 | R3 - 1" Meter | 34 | 6,496 | 44,269 | 66,289 | 22,020 | 49.74% |
| 7 | R4 - 1.5" Meter | - | - | - | - | - | - |
| 8 | R5 - 2" Meter | 1 | 41,200 | 5,965 | 8,938 | 2,973 | 49.84% |
| 9 | R6 - 3" Meter | - | - | - | - | - | - |
| 10 | R7 - 4" Meter | - | - | - | - | - | - |
| 11 | R8 - 6" Meter | - | - | - | - | - | - |
| 12 | Hydrant Meter | | | | | | |
| 13 | | | | | | | |
| 14 | <u>Metered Water Revenue</u> | | | | | | |
| 15 | All Customers | 120 | 81,126 | 114,735 | 174,524 | 59,789 | 52.11% |
| 16 | | | | | | | |
| 17 | Other Water Revenue | | | \$ 3,174 | \$ 3,174 | - | 0.00% |
| 18 | | | | | | | |
| 19 | Total | <u>120</u> | | <u>\$ 117,910</u> | <u>\$ 177,698</u> | <u>\$ 59,789</u> | <u>50.71%</u> |
| 20 | | | | | | | |

Supplemental Schedule
Breakdown of Metered Water Revenue at Current Rates
By Rate Components

| Line No. | Description | Revenue at Current Rates | | | | | |
|-------------|------------------------|--------------------------|-------------|-------------|-------------|------------------|--|
| | | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue | |
| 1 | | | | | | | |
| 2 | R1 - 5/8" x 3/4" Meter | \$ 25,600 | \$ 13,442 | \$ 11,498 | \$ 13,962 | \$ 64,502 | |
| 3 | R2 - 3/4" Meter | - | - | - | - | - | |
| 4 | R3 - 1" Meter | 25,750 | - | 13,322 | 5,197 | 44,269 | |
| 5 | R4 - 1.5" Meter | - | - | - | - | - | |
| 6 | R5 - 2" Meter | 2,400 | - | 1,731 | 1,834 | 5,965 | |
| 7 | R6 - 3" Meter | - | - | - | - | - | |
| 8 | R7 - 4" Meter | | | | | | |
| 9 | R8 - 6" Meter | - | - | - | - | - | |
| 10 | R9 - 8" Meter | - | - | - | - | - | |
| 11 | Hydrant Meter | | | | | - | |
| 12 | | | | | | | |
| 13 | Total Revenue | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ 114,735 | |
| 14 | | | | | | | |
| 15 | Percentage of Total | 46.85% | 11.72% | 23.14% | 18.30% | 100.00% | |
| 16 | | | | | | | |

Supplemental Schedule
Breakdown of Metered Water Revenue at Proposed Rates
By Rate Components

| | | Revenue at Proposed Rates | | | | | |
|----------|-----------------------------|---------------------------|-----------|-----------|-----------|----|---------------|
| Line No. | Description | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | | Total Revenue |
| 1 | | | | | | | |
| 2 | R1 - 5/8" x 3/4" Meter | \$ 38,656 | \$ 16,364 | \$ 23,246 | \$ 21,031 | \$ | 99,298 |
| 3 | R2 - 3/4" Meter | - | - | - | - | | - |
| 4 | R3 - 1" Meter | 38,885 | - | 22,676 | 4,729 | | 66,289 |
| 5 | R4 - 1.5" Meter | - | - | - | - | | - |
| 6 | R5 - 2" Meter | 3,624 | - | 2,907 | 2,406 | | 8,938 |
| 7 | R6 - 3" Meter | - | - | - | - | | - |
| 8 | R7 - 4" Meter | | | | | | |
| 9 | R8 - 6" Meter | - | - | - | - | | - |
| 10 | R9 - 8" Meter | - | - | - | - | | - |
| 11 | Hydrant Meter | | | | | | - |
| 12 | | | | | | | |
| 13 | Total Revenue | \$ 81,165 | \$ 16,364 | \$ 48,829 | \$ 28,166 | \$ | 174,524 |
| 14 | | | | | | | |
| 15 | Percentage of Total Revenue | 46.51% | 9.38% | 27.98% | 16.14% | | 100.00% |
| 16 | | | | | | | |
| 17 | Percentage Increase by Tier | 51.00% | 21.74% | 83.91% | 34.17% | | 52.11% |
| 18 | | | | | | | |

Supplemental Schedule
Metered Water Revenue at Proposed Rates
Analysis of Increases by Rate Tier

| Line No. | | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue |
|----------|-------------------------------------|--------------|-------------|----------------|--------------|---------------|
| 1 | Revenue at Current Rates | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ 114,735 |
| 2 | Revenue at Company's Proposed Rates | 81,165 | 16,364 | 48,829 | 28,166 | 174,524 |
| 3 | Increase in Rates | \$ 27,415 | \$ 2,922 | \$ 22,279 | \$ 7,173 | \$ 59,789 |
| 4 | | | | | | |
| 5 | Percentage Increase by Tier | 51.0% | 21.7% | 83.9% | 34.2% | 52.1% |
| 6 | Percentage of Increase within Tier | 45.9% | 4.9% | 37.3% | 12.0% | 100.0% |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue |
| 11 | | | | | | |
| 12 | Revenue at Current Rates | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ 114,735 |
| 13 | Revenue at Company's Proposed Rates | \$ 81,165 | \$ 16,364 | \$ 48,829 | \$ 28,166 | \$ 174,524 |
| 14 | | | | | | |
| 15 | Percentage of Total Revenue | | | | | |
| 16 | Current Rates | 46.8% | 11.7% | 23.1% # | 18.3% | 100.0% |
| 17 | Company's Proposed Rates | <u>46.5%</u> | <u>9.4%</u> | <u>28.0% #</u> | <u>16.1%</u> | <u>100.0%</u> |
| 18 | Change | -0.3% | -2.3% | 4.8% | -2.2% | 0.0% |
| 19 | | | | | | |
| 20 | | | | | | |

Meter Size: 5/8" x 3/4"
Rate Code: R1

| Rate Tiers | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|
| Tier One Breakover (M gal): | 4 | 3 |
| Tier Two Breakover (M gal): | 10 | 10 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 |

| Charges | Present Rates | Proposed Rates |
|------------------|---------------|----------------|
| Base Charge: | \$ 25.00 | \$ 37.75 |
| Tier One Rate: | \$ 4.40 | \$ 6.65 |
| Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills in Block | Average Consumption in Block | Consumption in Block | Cumulative Bills No. | % of Total | Cumulative Consumption Amount | % of Total |
|----------|-------------------|--------------------------|------------------------------|----------------------|----------------------|------------|-------------------------------|------------|
| 1 | - - - | 79 | | | 79 | 7.71% | - | 0.00% |
| 2 | 1 - 1,000 | 58 | 551 | 31,960 | 137 | 13.38% | 31,960 | 0.49% |
| 3 | 1,001 - 2,000 | 118 | 1,492 | 176,030 | 255 | 24.90% | 207,990 | 3.17% |
| 4 | 2,001 - 3,000 | 116 | 2,532 | 293,740 | 371 | 36.23% | 501,730 | 7.64% |
| 5 | 3,001 - 4,000 | 120 | 3,510 | 421,240 | 491 | 47.95% | 922,970 | 14.06% |
| 6 | 4,001 - 5,000 | 116 | 4,467 | 518,210 | 607 | 59.28% | 1,441,180 | 21.95% |
| 7 | 5,001 - 6,000 | 86 | 5,504 | 473,350 | 693 | 67.68% | 1,914,530 | 29.17% |
| 8 | 6,001 - 7,000 | 60 | 6,452 | 387,120 | 753 | 73.54% | 2,301,650 | 35.06% |
| 9 | 7,001 - 8,000 | 61 | 7,436 | 453,590 | 814 | 79.49% | 2,755,240 | 41.97% |
| 10 | 8,001 - 9,000 | 28 | 8,348 | 233,750 | 842 | 82.23% | 2,988,990 | 45.53% |
| 11 | 9,001 - 10,000 | 21 | 9,432 | 198,070 | 863 | 84.28% | 3,187,060 | 48.55% |
| 12 | 10,001 - 12,000 | 40 | 10,933 | 437,310 | 903 | 88.18% | 3,624,370 | 55.21% |
| 13 | 12,001 - 14,000 | 25 | 13,062 | 326,550 | 928 | 90.63% | 3,950,920 | 60.19% |
| 14 | 14,001 - 16,000 | 16 | 15,108 | 241,730 | 944 | 92.19% | 4,192,650 | 63.87% |
| 15 | 16,001 - 18,000 | 13 | 16,862 | 219,200 | 957 | 93.46% | 4,411,850 | 67.21% |
| 16 | 18,001 - 20,000 | 14 | 18,854 | 263,960 | 971 | 94.82% | 4,675,810 | 71.23% |
| 17 | 20,001 - 25,000 | 19 | 22,146 | 420,770 | 990 | 96.68% | 5,096,580 | 77.64% |
| 18 | 25,001 - 30,000 | 13 | 28,165 | 366,150 | 1,003 | 97.95% | 5,462,730 | 83.22% |
| 19 | 30,001 - 35,000 | 5 | 32,218 | 161,090 | 1,008 | 98.44% | 5,623,820 | 85.67% |
| 20 | 35,001 - 40,000 | 1 | 38,000 | 38,000 | 1,009 | 98.54% | 5,661,820 | 86.25% |
| 21 | 40,001 - 50,000 | 8 | 45,083 | 360,660 | 1,017 | 99.32% | 6,022,480 | 91.74% |
| 22 | 50,001 - 60,000 | 4 | 54,480 | 217,920 | 1,021 | 99.71% | 6,240,400 | 95.06% |
| 23 | 60,001 - 70,000 | - | - | - | 1,021 | 99.71% | 6,240,400 | 95.06% |
| 24 | 70,001 - 80,000 | 1 | 74,090 | 74,090 | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 25 | 80,001 - 90,000 | - | - | - | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 26 | 90,001 - 100,000 | - | - | - | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 27 | 106,640 - 106,640 | 1 | 106,640 | 106,640 | 1,023 | 99.90% | 6,421,130 | 97.82% |
| 28 | 143,260 - 143,260 | 1 | 143,260 | 143,260 | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 29 | | | | | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 30 | | | | | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 113 | | | | | | | | |
| 114 | Totals | 1,024 | | 6,564,390 | 1,024 | | 6,564,390 | |
| 115 | | | | | | | | |
| 116 | Total Bills | 1,024 | | | | | | |

| | | Current Rates | | Proposed Rates | |
|-----|-------------------------------|---------------|--------------|----------------|-----------|
| | | Units | Revenue | Units | Revenue |
| 117 | | | | | |
| 118 | Base Charge | 1,024 | \$ 25,600 | 1,024 | \$ 38,656 |
| 119 | Average Number of Customers | | | | |
| 120 | | | | | |
| 121 | Average Consumption (gallons) | | | | |
| 122 | | | | | |
| 123 | Median Consumption (gallons) | | | | |
| 124 | | | | | |
| 125 | Usage (gallons) | | | | |
| 126 | | | | | |
| | Tier One | 3,054,970 | \$ 13,442 | 2,460,730 | \$ 16,364 |
| | Tier Two | 1,742,090 | 11,498 | 2,336,330 | 23,246 |
| | Tier Three | 1,767,330 | 13,962 | 1,767,330 | 21,031 |
| | Usage Totals | 6,564,390 | | 6,564,390 | |
| | Revenue Totals | | \$ 64,501.57 | | \$ 99,298 |

Meter Size: 5/8" x 3/4"
Rate Code: R1

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | <u>Present Rates:</u> | - | \$ 25.00 | \$ 37.75 | \$ 12.75 | 51.00% |
| 2 | Base Charge: | 1,000 | \$ 29.40 | \$ 44.40 | \$ 15.00 | 51.02% |
| 3 | | 2,000 | \$ 33.80 | \$ 51.05 | \$ 17.25 | 51.04% |
| 4 | | 3,000 | \$ 38.20 | \$ 57.70 | \$ 19.50 | 51.05% |
| 5 | Tier One Rate: | 4,000 | \$ 42.60 | \$ 67.65 | \$ 25.05 | 58.80% |
| 6 | Tier Two Rate: | 5,000 | \$ 49.20 | \$ 77.60 | \$ 28.40 | 57.72% |
| 7 | Tier Three Rate: | 6,000 | \$ 55.80 | \$ 87.55 | \$ 31.75 | 56.90% |
| 8 | | 7,000 | \$ 62.40 | \$ 97.50 | \$ 35.10 | 56.25% |
| 9 | Tier One Breakover (M gal): | 4 | \$ 69.00 | \$ 107.45 | \$ 38.45 | 55.72% |
| 10 | Tier Two Breakover (M gal): | 10 | \$ 75.60 | \$ 117.40 | \$ 41.80 | 55.29% |
| 11 | Tier Three Breakover (M gal): | 999,999 | \$ 82.20 | \$ 127.35 | \$ 45.15 | 54.93% |
| 12 | | 12,000 | \$ 98.00 | \$ 151.15 | \$ 53.15 | 54.23% |
| 13 | | 14,000 | \$ 113.80 | \$ 174.95 | \$ 61.15 | 53.73% |
| 14 | <u>Proposed Rates:</u> | 16,000 | \$ 129.60 | \$ 198.75 | \$ 69.15 | 53.36% |
| 15 | Base Charge: | 18,000 | \$ 145.40 | \$ 222.55 | \$ 77.15 | 53.06% |
| 16 | | 20,000 | \$ 161.20 | \$ 246.35 | \$ 85.15 | 52.82% |
| 17 | | 25,000 | \$ 200.70 | \$ 305.85 | \$ 105.15 | 52.39% |
| 18 | Tier One Rate: | 30,000 | \$ 240.20 | \$ 365.35 | \$ 125.15 | 52.10% |
| 19 | Tier Two Rate: | 35,000 | \$ 279.70 | \$ 424.85 | \$ 145.15 | 51.89% |
| 20 | Tier Three Rate: | 40,000 | \$ 319.20 | \$ 484.35 | \$ 165.15 | 51.74% |
| 21 | | 45,000 | \$ 358.70 | \$ 543.85 | \$ 185.15 | 51.62% |
| 22 | Tier One Breakover (M gal): | 3 | \$ 398.20 | \$ 603.35 | \$ 205.15 | 51.52% |
| 23 | Tier Two Breakover (M gal): | 10 | \$ 477.20 | \$ 722.35 | \$ 245.15 | 51.37% |
| 24 | Tier Three Breakover (M gal): | 999,999 | \$ 556.20 | \$ 841.35 | \$ 285.15 | 51.27% |
| 25 | | 80,000 | \$ 635.20 | \$ 960.35 | \$ 325.15 | 51.19% |
| 26 | | 90,000 | \$ 714.20 | \$ 1,079.35 | \$ 365.15 | 51.13% |
| 27 | | 100,000 | \$ 793.20 | \$ 1,198.35 | \$ 405.15 | 51.08% |
| 28 | | | | | | |
| 29 | | Average Usage | | | | |
| 30 | | 6,411 | \$ 58.51 | \$ 91.64 | \$ 33.13 | 56.62% |
| 31 | | Median Usage | | | | |
| 32 | | 3,684 | \$ 41.21 | \$ 64.50 | \$ 23.29 | 56.52% |
| 33 | | | | | | |
| 34 | | | | | | |

Meter Size: 1"
Rate Code: R3

| Rate Tiers | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|
| Tier One Breakover (M gal): | - | - |
| Tier Two Breakover (M gal): | 10 | 15 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 |

| Charges | Present Rates | Proposed Rates |
|------------------|---------------|----------------|
| Base Charge: | \$ 62.50 | \$ 94.38 |
| Tier One Rate: | \$ - | \$ - |
| Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills by Block | Average Consumption in Block 85% | Consumption by Blocks | Cumulative Bills No. | % of Total | Cumulative Consumption Amount | % of Total |
|----------|------------------|--------------------------|-------------------------------------|-----------------------|----------------------|------------|-------------------------------|------------|
| 1 | - | 25 | | | 25 | 6.07% | - | 0.00% |
| 2 | 1 - 1,000 | 22 | 350 | 7,700 | 47 | 11.41% | 7,700 | 0.29% |
| 3 | 1,001 - 2,000 | 33 | 1,517 | 50,050 | 80 | 19.42% | 57,750 | 2.16% |
| 4 | 2,001 - 3,000 | 54 | 2,618 | 141,360 | 134 | 32.52% | 199,110 | 7.44% |
| 5 | 3,001 - 4,000 | 62 | 3,457 | 214,360 | 196 | 47.57% | 413,470 | 15.45% |
| 6 | 4,001 - 5,000 | 44 | 4,488 | 197,470 | 240 | 58.25% | 610,940 | 22.83% |
| 7 | 5,001 - 6,000 | 35 | 5,541 | 193,933 | 275 | 66.75% | 804,873 | 30.07% |
| 8 | 6,001 - 7,000 | 22 | 6,486 | 142,687 | 297 | 72.09% | 947,560 | 35.41% |
| 9 | 7,001 - 8,000 | 23 | 7,482 | 172,080 | 320 | 77.67% | 1,119,640 | 41.84% |
| 10 | 8,001 - 9,000 | 9 | 8,453 | 76,080 | 329 | 79.85% | 1,195,720 | 44.68% |
| 11 | 9,001 - 10,000 | 13 | 9,443 | 122,760 | 342 | 83.01% | 1,318,480 | 49.26% |
| 12 | 10,001 - 12,000 | 15 | 11,138 | 167,070 | 357 | 86.65% | 1,485,550 | 55.51% |
| 13 | 12,001 - 14,000 | 14 | 12,743 | 178,400 | 371 | 90.05% | 1,663,950 | 62.17% |
| 14 | 14,001 - 16,000 | 8 | 15,060 | 120,480 | 379 | 91.99% | 1,784,430 | 66.67% |
| 15 | 16,001 - 18,000 | 5 | 16,520 | 82,600 | 384 | 93.20% | 1,867,030 | 69.76% |
| 16 | 18,001 - 20,000 | 3 | 19,097 | 57,290 | 387 | 93.93% | 1,924,320 | 71.90% |
| 17 | 20,001 - 25,000 | 10 | 22,867 | 228,670 | 397 | 96.36% | 2,152,990 | 80.45% |
| 18 | 25,001 - 30,000 | 5 | 27,902 | 139,510 | 402 | 97.57% | 2,292,500 | 85.66% |
| 19 | 30,001 - 35,000 | 4 | 32,588 | 130,350 | 406 | 98.54% | 2,422,850 | 90.53% |
| 20 | 35,001 - 40,000 | 2 | 35,980 | 71,960 | 408 | 99.03% | 2,494,810 | 93.22% |
| 21 | 40,001 - 50,000 | 4 | 45,378 | 181,510 | 412 | 100.00% | 2,676,320 | 100.00% |
| 22 | 50,001 - 60,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 23 | 60,001 - 70,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 24 | 70,001 - 80,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 25 | 80,001 - 90,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 26 | 90,001 - 100,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 163 | | | | | | | | |
| 164 | Totals | 412 | | 2,676,320 | 412 | | 2,676,320 | |
| 165 | | | | | | | | |
| 166 | Total Bills | 412 | | | | | | |

| | Current Rates | | Proposed Rates | |
|-----------------|---------------|-----------|----------------|-----------|
| | Units | Revenue | Units | Revenue |
| Base Charge | 412 | \$ 25,750 | 412 | \$ 38,885 |
| Usage (gallons) | | | | |
| Tier One | - | \$ - | - | \$ - |
| Tier Two | 2,018,480 | 13,322 | 2,278,950 | 22,676 |
| Tier Three | 657,840 | 5,197 | 397,370 | 4,729 |
| Usage Totals | 2,676,320 | | 2,676,320 | |
| Revenue Totals | | \$ 44,269 | | \$ 66,289 |

Meter Size: 1"
Rate Code: R3

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | <u>Present Rates:</u> | - | \$ 62.50 | \$ 94.38 | \$ 31.88 | 51.01% |
| 2 | Base Charge: | 1,000 | \$ 69.10 | \$ 104.33 | \$ 35.23 | 50.98% |
| 3 | | 2,000 | \$ 75.70 | \$ 114.28 | \$ 38.58 | 50.96% |
| 4 | | 3,000 | \$ 82.30 | \$ 124.23 | \$ 41.93 | 50.95% |
| 5 | Tier One Rate: | 4,000 | \$ 88.90 | \$ 134.18 | \$ 45.28 | 50.93% |
| 6 | Tier Two Rate: | 5,000 | \$ 95.50 | \$ 144.13 | \$ 48.63 | 50.92% |
| 7 | Tier Three Rate: | 6,000 | \$ 102.10 | \$ 154.08 | \$ 51.98 | 50.91% |
| 8 | | 7,000 | \$ 108.70 | \$ 164.03 | \$ 55.33 | 50.90% |
| 9 | Tier One Breakover (M gal): | - | \$ 115.30 | \$ 173.98 | \$ 58.68 | 50.89% |
| 10 | Tier Two Breakover (M gal): | 10 | \$ 121.90 | \$ 183.93 | \$ 62.03 | 50.89% |
| 11 | Tier Three Breakover (M gal): | 999,999 | \$ 128.50 | \$ 193.88 | \$ 65.38 | 50.88% |
| 12 | | 12,000 | \$ 144.30 | \$ 213.78 | \$ 69.48 | 48.15% |
| 13 | | 14,000 | \$ 160.10 | \$ 233.68 | \$ 73.58 | 45.96% |
| 14 | <u>Proposed Rates:</u> | 16,000 | \$ 175.90 | \$ 255.53 | \$ 79.63 | 45.27% |
| 15 | Base Charge: | 18,000 | \$ 191.70 | \$ 279.33 | \$ 87.63 | 45.71% |
| 16 | | 20,000 | \$ 207.50 | \$ 303.13 | \$ 95.63 | 46.09% |
| 17 | | 25,000 | \$ 247.00 | \$ 362.63 | \$ 115.63 | 46.81% |
| 18 | Tier One Rate: | 30,000 | \$ 286.50 | \$ 422.13 | \$ 135.63 | 47.34% |
| 19 | Tier Two Rate: | 35,000 | \$ 326.00 | \$ 481.63 | \$ 155.63 | 47.74% |
| 20 | Tier Three Rate: | 40,000 | \$ 365.50 | \$ 541.13 | \$ 175.63 | 48.05% |
| 21 | | 45,000 | \$ 405.00 | \$ 600.63 | \$ 195.63 | 48.30% |
| 22 | Tier One Breakover (M gal): | - | \$ 444.50 | \$ 660.13 | \$ 215.63 | 48.51% |
| 23 | Tier Two Breakover (M gal): | 15 | \$ 523.50 | \$ 779.13 | \$ 255.63 | 48.83% |
| 24 | Tier Three Breakover (M gal): | 999,999 | \$ 602.50 | \$ 898.13 | \$ 295.63 | 49.07% |
| 25 | | 80,000 | \$ 681.50 | \$ 1,017.13 | \$ 335.63 | 49.25% |
| 26 | | 90,000 | \$ 760.50 | \$ 1,136.13 | \$ 375.63 | 49.39% |
| 27 | | 100,000 | \$ 839.50 | \$ 1,255.13 | \$ 415.63 | 49.51% |
| 28 | | | | | | |
| 29 | | | | | | |
| 30 | | Average Usage | | | | |
| | | 6,496 | \$ 105.37 | \$ 159.02 | \$ 53.65 | 50.92% |

Meter Size: 2"
Rate Code: R5

| Rate Tiers | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|
| Tier One Breakover (M gal): | - | - |
| Tier Two Breakover (M gal): | 40 | 50 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 |

| Charges | Present Rates | Proposed Rates |
|------------------|---------------|----------------|
| Base Charge: | \$ 200.00 | \$ 302.00 |
| Tier One Rate: | \$ - | \$ - |
| Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills by Block | Average Consumption in Block | Consumption by Blocks | Cumulative Bills No. | % of Total | Cumulative Amount | Cumulative Consumption % of Total |
|----------|-------------------|--------------------------|------------------------------|-----------------------|----------------------|------------|-------------------|-----------------------------------|
| 1 | - | 1 | - | - | 1 | 8.33% | - | 0.00% |
| 2 | 1 - 1,000 | - | - | - | 1 | 8.33% | - | 0.00% |
| 3 | 1,001 - 2,000 | - | 1,000 | - | 1 | 8.33% | - | 0.00% |
| 4 | 2,001 - 3,000 | - | 2,000 | - | 1 | 8.33% | - | 0.00% |
| 5 | 3,001 - 4,000 | 1 | 3,200 | 3,200 | 2 | 16.67% | 3,200 | 0.65% |
| 6 | 4,001 - 5,000 | 1 | 4,400 | 4,400 | 3 | 25.00% | 7,600 | 1.54% |
| 7 | 5,001 - 6,000 | - | 5,000 | - | 3 | 25.00% | 7,600 | 1.54% |
| 8 | 6,001 - 7,000 | 1 | 6,500 | 6,500 | 4 | 33.33% | 14,100 | 2.85% |
| 9 | 7,001 - 8,000 | 1 | 7,800 | 7,800 | 5 | 41.67% | 21,900 | 4.43% |
| 10 | 8,001 - 9,000 | - | 8,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 11 | 9,001 - 10,000 | - | 9,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 12 | 10,001 - 12,000 | - | 10,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 13 | 12,001 - 14,000 | 1 | 13,100 | 13,100 | 6 | 50.00% | 35,000 | 7.08% |
| 14 | 14,001 - 16,000 | - | 14,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 15 | 16,001 - 18,000 | - | 16,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 16 | 18,001 - 20,000 | - | 18,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 17 | 20,001 - 25,000 | - | 20,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 18 | 25,001 - 30,000 | 1 | 28,700 | 28,700 | 7 | 58.33% | 63,700 | 12.88% |
| 19 | 30,001 - 35,000 | - | 30,000 | - | 7 | 58.33% | 63,700 | 12.88% |
| 20 | 35,001 - 40,000 | 2 | 39,250 | 78,500 | 9 | 75.00% | 142,200 | 28.76% |
| 21 | 40,001 - 50,000 | - | 40,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 22 | 50,001 - 60,000 | - | 50,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 23 | 60,001 - 70,000 | - | 60,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 24 | 70,001 - 80,000 | 1 | 79,800 | 79,800 | 10 | 83.33% | 222,000 | 44.90% |
| 25 | 80,001 - 90,000 | - | 80,000 | - | 10 | 83.33% | 222,000 | 44.90% |
| 26 | 90,001 - 100,000 | - | 90,000 | - | 10 | 83.33% | 222,000 | 44.90% |
| 27 | 123,300 - 123,300 | 1 | 123,300 | 123,300 | 11 | 91.67% | 345,300 | 69.84% |
| 28 | 149,100 - 149,100 | 1 | 149,100 | 149,100 | 12 | 100.00% | 494,400 | 100.00% |
| 366 | | | | | | | | |
| 367 | Totals | 12 | | 494,400 | 12 | | 494,400 | |
| 368 | | | | | | | | |
| 369 | Total Bills | 12 | | | | | | |

369

Total Bills

12

370

371

Base Charge

12

\$

2,400

372

Average Number of Customers

1

373

Usage (gallons)

374

Average Consumption (gallons)

41,200

375

Tier One

-

\$

-

-

\$

-

376

Median Consumption (gallons)

13,100

377

Tier Two

262,200

1,731

292,200

2,907

378

Tier Three

232,200

1,834

202,200

2,406

379

Usage Totals

494,400

494,400

Revenue Totals

\$

5,965

\$

8,938

Meter Size: 2"
Rate Code: R5

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | Present Rates: | - | \$ 200.00 | \$ 302.00 | \$ 102.00 | 51.00% |
| 2 | Base Charge: | 1,000 | \$ 206.60 | \$ 311.95 | \$ 105.35 | 50.99% |
| 3 | | 2,000 | \$ 213.20 | \$ 321.90 | \$ 108.70 | 50.98% |
| 4 | | 3,000 | \$ 219.80 | \$ 331.85 | \$ 112.05 | 50.98% |
| 5 | Tier One Rate: | 4,000 | \$ 226.40 | \$ 341.80 | \$ 115.40 | 50.97% |
| 6 | Tier Two Rate: | 5,000 | \$ 233.00 | \$ 351.75 | \$ 118.75 | 50.97% |
| 7 | Tier Three Rate: | 6,000 | \$ 239.60 | \$ 361.70 | \$ 122.10 | 50.96% |
| 8 | | 7,000 | \$ 246.20 | \$ 371.65 | \$ 125.45 | 50.95% |
| 9 | Tier One Breakover (M gal): | 8,000 | \$ 252.80 | \$ 381.60 | \$ 128.80 | 50.95% |
| 10 | Tier Two Breakover (M gal): | 9,000 | \$ 259.40 | \$ 391.55 | \$ 132.15 | 50.94% |
| 11 | Tier Three Breakover (M gal): | 10,000 | \$ 266.00 | \$ 401.50 | \$ 135.50 | 50.94% |
| 12 | | 12,000 | \$ 279.20 | \$ 421.40 | \$ 142.20 | 50.93% |
| 13 | | 14,000 | \$ 292.40 | \$ 441.30 | \$ 148.90 | 50.92% |
| 14 | Proposed Rates: | 16,000 | \$ 305.60 | \$ 461.20 | \$ 155.60 | 50.92% |
| 15 | Base Charge: | 18,000 | \$ 318.80 | \$ 481.10 | \$ 162.30 | 50.91% |
| 16 | | 20,000 | \$ 332.00 | \$ 501.00 | \$ 169.00 | 50.90% |
| 17 | | 25,000 | \$ 365.00 | \$ 550.75 | \$ 185.75 | 50.89% |
| 18 | Tier One Rate: | 30,000 | \$ 398.00 | \$ 600.50 | \$ 202.50 | 50.88% |
| 19 | Tier Two Rate: | 35,000 | \$ 431.00 | \$ 650.25 | \$ 219.25 | 50.87% |
| 20 | Tier Three Rate: | 40,000 | \$ 464.00 | \$ 700.00 | \$ 236.00 | 50.86% |
| 21 | | 45,000 | \$ 503.50 | \$ 749.75 | \$ 246.25 | 48.91% |
| 22 | Tier One Breakover (M gal): | 50,000 | \$ 543.00 | \$ 799.50 | \$ 256.50 | 47.24% |
| 23 | Tier Two Breakover (M gal): | 60,000 | \$ 622.00 | \$ 918.50 | \$ 296.50 | 47.67% |
| 24 | Tier Three Breakover (M gal): | 70,000 | \$ 701.00 | \$ 1,037.50 | \$ 336.50 | 48.00% |
| 25 | | 80,000 | \$ 780.00 | \$ 1,156.50 | \$ 376.50 | 48.27% |
| 26 | | 90,000 | \$ 859.00 | \$ 1,275.50 | \$ 416.50 | 48.49% |
| 27 | | 100,000 | \$ 938.00 | \$ 1,394.50 | \$ 456.50 | 48.67% |
| 28 | | | | | | |
| 29 | | Average Usage | | | | |
| 30 | | 41,200 | \$ 473.48 | \$ 711.94 | \$ 238.46 | 50.36% |
| 31 | | Median Usage | | | | |
| 32 | | 13,100 | \$ 286.46 | \$ 432.35 | \$ 145.89 | 50.93% |

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB3

Well No. 4 Pump Replacement Documentation

Granite Mountain Water Co., Inc.
Account QuickReport
As of December 31, 2014

| | Type | Date | Num | Name | Memo | Amount |
|---|-----------------|------------|------|--------------|-----------------------|------------------------|
| 101.00 · Utility Plant in Service | | | | | | |
| 311.00 · Pumping Equipment | | | | | | |
| | Check | 09/09/2014 | 5683 | R. W. Turner | Well #4/Pump went out | 9,448.52 |
| | General Journal | 12/31/2014 | JFL | | Remove well # 4 Pump | -4,680.00 |
| Total 311.00 · Pumping Equipment | | | | | | <u>4,768.52</u> |
| Total 101.00 · Utility Plant in Service | | | | | | <u>4,768.52</u> |
| TOTAL | | | | | | <u><u>4,768.52</u></u> |

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

5683

9/9/2014

TO THE
ORDER OF R. W. Turner

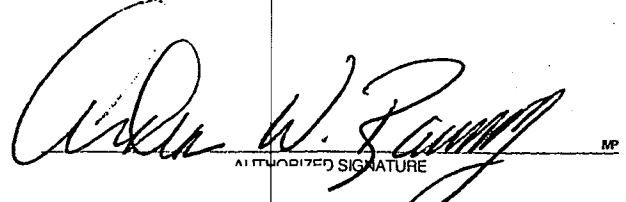
\$ **9,448.52

Nine Thousand Four Hundred Forty-Eight and 52/100*****

DOLLARS

R. W. Turner and Sons Pump
and Windmill Co., Inc
3471 N Hwy 89
Chino Valley, AZ 86323

MO


AUTHORIZED SIGNATURE MP

Granite Mountain Water Company

5683

R. W. Turner
620.00 · Materials & Supplies:620.02 · R Well #4/Pump went out

9/9/2014

9,448.52

National Bank

9,448.52

Granite Mountain Water Company

5683

R. W. Turner
620.00 · Materials & Supplies:620.02 · R Well #4/Pump went out

9/9/2014

9,448.52

National Bank

9,448.52

Details on Back

Security Features Included

R.W.TURNER & SONS PUMP
AND WINDMILL CO., INC
3471 N. HWY 89
CHINO VALLEY, AZ 86323
Phone # 928-636-2771
Fax # 928-636-8878

Invoice

| Date | Invoice # |
|-----------|-----------|
| 8/27/2014 | 13449 |

| Bill To |
|--|
| GRANITE MTN. WATER CO. P.O. BOX 350 CHINO VALLEY, AZ 86323 |

| Served By | Terms | Location |
|-----------|----------------|----------|
| WT,JC | Due on receipt | WELL #4 |

| Description | Qty | Rate | Amount |
|---|-----|----------|-----------|
| 8/14/14-SERVICE CALL. CHECKED SYSTEM. PULLED PUMP AND FOUND MOTOR LOCKED UP. REPLACED PUMP AND MOTOR WITH NEW UNIT AND NECESSARY MATERIALS. STARTED SYSTEM AND MONITORED FOR PROPER WORKING OPERATION. CUSTOMER WILL CALL IN THE MORNING TO LET US KNOW HOW EVERYTHING WENT OVER NIGHT. | | | |
| 8/19/14-RETURNED TO SITE. INSTALLED NEW PUMP SAVER, J-BOX AND NECESSARY MATERIAL. RAN PROGRAM AND TEST RUN. | | | |
| BERKELEY 6T15-75 PUMP | 1 | 3,668.00 | 3,668.00T |
| 15HP BERKELEY MOTOR | 1 | 2,302.00 | 2,302.00T |
| 3" GALV PIPE | 21 | 9.60 | 201.60T |
| #10 Splice Kit | 1 | 15.00 | 15.00T |
| Roll of 2" 10 Mil tape | 2 | 7.45 | 14.90T |
| 1/2" ss banding | 8 | 2.45 | 19.60T |
| 1/2" ss buckles | 8 | 1.75 | 14.00T |
| #10 Sub. Cable | 338 | 1.60 | 540.80T |
| Symcom 777-HVR motor saver (list price \$662.00) | 1 | 515.00 | 515.00T |
| 8X8X6 Indoor Screw Cover J-Box, NEMA | 1 | 43.50 | 43.50T |
| 1" R/T PVC Flex | 1 | 1.50 | 1.50T |
| 1" Straight R/T PVC Connector | 2 | 3.57 | 7.14T |
| #14 THHN Wire | 27 | 0.14 | 3.78T |

| | |
|---|--------------------------|
| | Sales Tax (9.35%) |
| Payment due upon receipt. After 30 days finance charges will accrue 1.5% per month or 18% per annum. We accept Visa and Master Card. Thank You. | Total |

R.W.TURNER & SONS PUMP
AND WINDMILL CO., INC
3471 N. HWY 89
CHINO VALLEY, AZ 86323
Phone # 928-636-2771
Fax # 928-636-8878

Invoice

| Date | Invoice # |
|-----------|-----------|
| 8/27/2014 | 13449 |

| |
|--|
| Bill To |
| GRANITE MTN. WATER CO. P.O. BOX 350 CHINO VALLEY, AZ 86323 |

| Served By | | Terms | Location |
|--|-----|-------------------|------------|
| WT,JC | | Due on receipt | WELL #4 |
| Description | Qty | Rate | Amount |
| #12 THHN Wire | 35 | 0.19 | 6.65T |
| SUB TOTAL | | | 7,353.47 |
| LABOR | | 1,407.50 | 1,407.50 |
| | | Sales Tax (9.35%) | \$687.55 |
| Payment due upon receipt. After 30 days finance charges will accrue 1.5% per month or 18% per annum. We accept Visa and Master Card. Thank You. | | Total | \$9,448.52 |

OK to pay
PKL

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB4

Well No. 6 Easement Appraisal (Executive Summary)

AN APPRAISAL REPORT
CONTAINING THE RESULTS OF
AN APPRAISAL OF AN
UNRESTRICTED EASEMENT
LOCATED AT
2475 W. SHORT SPUR TRAIL
YAVAPAI COUNTY, ARIZONA

PREPARED FOR

GRANITE MOUNTAIN WATER CO.
C/O PAUL LEVIE
P.O. BOX 350
CHINO VALLEY, ARIZONA 86323-0350

PREPARED BY

ROBERT C. HUCK, MAI
CERTIFIED GENERAL REAL ESTATE APPRAISER
CERTIFICATE NO. 30123

OF

HUCK APPRAISAL OFFICE
724 GAIL GARDNER WAY
PRESCOTT, ARIZONA 86305
(928) 778-7171

EFFECTIVE DATE OF VALUATION
MAY 29, 2014

DATE OF REPORT
APRIL 14, 2015

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
9. I have made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.
11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I, Robert C. Huck, have completed the continuing education program of the Appraisal Institute.

CERTIFICATION

Page Two

14. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

15. I hereby certify that I am competent to complete the appraisal assignment. The reader is referred to the appraiser's Statement of Qualifications contained in the Addenda.

16. All extraordinary assumptions, hypothetical conditions and limiting conditions imposed by the terms of the assignment or by the undersigned, affecting the analysis, opinions and conclusions contained in this report are contained herein.

17. No change of any item of the appraisal report shall be made by anyone other than the Appraiser, and if changed, the Appraiser shall have no responsibility for any such unauthorized change.

VALUE CONCLUSIONS

The subject property is an unrestricted easement across the property identified as 2475 W. Short Spur Trail, Assessor's Parcel # 102-09-008N in Yavapai County, Arizona.

The subject property is a portion of the property identified on the Yavapai County Assessor's Tax Roll as Assessor's Parcel # 102-09-008N. The legal description for the property is a Metes and Bounds described parcel in Section 30, Township 15 North, Range 2 West, of the Gila & Salt River Base & Meridian, Yavapai County, Arizona. This parcel is referred to in this appraisal as the 'larger parcel'. This parcel contains ± 1.40 acres or $\pm 61,034$ square feet. It is improved with a single family residence, several outbuildings and miscellaneous site improvements.

The subject easement is a portion of the larger parcel. It contains ± 1.024 acres or $\pm 44,594$ square feet, outbuildings and site improvements as described in this report. It does not contain a portion of the land area contained in the larger parcel or the existing single family residence on this parcel.

By reason of my investigation and having given careful consideration to the factors which affect real estate value, I have concluded the following retrospective market value of the unrestricted easement, 'As Is', as of May 29, 2014:

EIGHTY THOUSAND DOLLARS
(\$80,000)

CERTIFICATION

Page Three

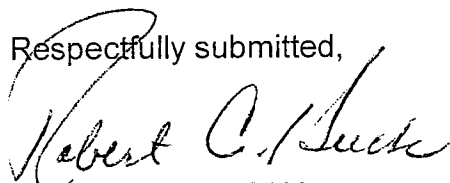
The conclusions of this appraisal are subject to the Standard Assumptions and Limiting Conditions contained in the Addenda of this report. In addition, the conclusions are also made in consideration of the following Extraordinary Assumptions and/or Hypothetical Conditions, as discussed in the report:

1. The appraiser notes that the date of valuation is May 29, 2014, the date the subject easement was recorded in the Yavapai County Recorder's Office. However, the date of the formal inspection of the property is April 14 2015. It is an extraordinary assumption of this appraisal that the nature of the property as of the date of valuation was substantially consistent with the nature of the property on the date of the formal inspection.

I hereby disclose that I personally inspected the subject property on April 14, 2015. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.

I hereby certify that I have no interest, present or prospective, in the subject property, and that the appraisal assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. I further certify that to the best of my knowledge and belief, the statements and opinions contained in the appraisal are correct, subject to the limiting conditions expressed herein.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert C. Huck".

Robert C. Huck, MAI
Certified General Real Estate Appraiser
Certificate No. 30123

SUMMARY OF CONCLUSIONS

PROPERTY NAME: Granite Mountain Short Spur Easement

PROPERTY LOCATION: 2475 W. Short Spur Trail, Yavapai County, Arizona

PROPERTY TYPE: Unrestricted Easement

ASSESSOR'S PARCEL #: Portion of 102-09-008N (Yavapai)

EFFECTIVE DATE OF VALUE: May 29, 2014

DATE OF REPORT: April 14, 2015

ZONING: Yavapai County R1L-35

EASEMENT: ±44,594 Square Feet or 1.024 Acres

STRUCTURES: Building #1: 702 SF
Building #2: 128 SF
Building #3: 64 SF
Building #4: 65 SF

HIGHEST AND BEST USE,

As Vacant: Single Family Residential Lot or Open Space
As Improved: Single Family Residential/Water Company Use

EXPOSURE TIME: N/A

VALUE ESTIMATE OF SUBJECT EASEMENT: \$80,000

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB5

Tank No. 3 CWIP Documentation

8:41 AM
08/13/15
Accrual Basis

Granite Mountain Water Co., Inc.
Account QuickReport
All Transactions

| Type | Date | Num | Name | Memo | Amount |
|--|------------|------|---------------------------------------|--|-----------|
| 105.00 · Construction Work in Progress | | | | | |
| 105.03 · Water Tank #3 (50K Gallons) | | | | | |
| Check | 05/25/2011 | 1608 | Glen Vortherms | Engineering Plans & Report/As-Built Tank #3 | 900.00 |
| Check | 07/05/2011 | 1629 | Arizona Dept of Environmental Quality | ADEQ Engineering Review GMWC Tank #3 Addition | 800.00 |
| Check | 07/27/2011 | 1652 | American Express | Postage-ADEQ Tank #3 Engineering Review Packet | 11.44 |
| Check | 07/27/2011 | 1652 | American Express | A&E Repographics (5) Copies of Eng Plans for Tank #3 | 92.82 |
| Check | 05/22/2014 | 5555 | Yavapai County Development Services | Building Permit Fees | 465.00 |
| Check | 06/18/2014 | 5589 | Yavapai County Development Services | Tank Permit | 415.00 |
| Check | 09/12/2014 | 5688 | David Larson | Draw #1 Tank Construction | 6,300.00 |
| Check | 09/19/2014 | 5703 | David Larson | Draw #2 Tank Construction | 6,300.00 |
| Check | 02/09/2015 | 5873 | Chapman Electric | 50k Gal Water tank | 34,225.00 |
| Check | 04/17/2015 | 5954 | Chapman Electric | 50k Gal Water tank Sales tax Payable | 2,800.13 |
| Check | 07/30/2015 | 6056 | Chapman Electric | Draw 2 and Materials | 28,770.32 |
| Total 105.03 · Water Tank #3 (50K Gallons) | | | | | 81,079.71 |
| Total 105.00 · Construction Work in Progress | | | | | 81,079.71 |
| TOTAL | | | | | 81,079.71 |

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Rebuttal Testimony of Ray L. Jones

Exhibit RLJ-RB6

Updated Staff Schedules Used as Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|-------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$38,942 | (\$7,618) | \$31,324 |
| 2 | Salaries and Wages - Officers | 6,000 | 440 | 6,440 |
| 3 | Purchased Power | 8,950 | 190 | 9,140 |
| 4 | Chemicals | 47 | 45 | 92 |
| 5 | Repairs and Maintenance | 4,339 | (641) | 3,698 |
| 6 | Office Supplies & Expense | 8,314 | (2,149) | 6,165 |
| 7 | Rents | 0 | 2,194 | 2,194 |
| 8 | Contractual Services | 11,353 | 822 | 12,175 |
| 9 | Transportation Expenses | 5,453 | (314) | 5,139 |
| 10 | Insurance - General Liability | 1,292 | 282 | 1,574 |
| 11 | Insurance - Health and Life | 0 | 520 | 520 |
| 12 | Miscellaneous Expenses | 102 | (6) | 96 |
| 13 | Payroll Taxes | 0 | 2,765 | 2,765 |
| 14 | Total | \$84,792 | (\$3,470) | \$81,322 |

| LINE NO. | DESCRIPTION | [D] Chino Meadows as filed | [E] Original amount allocated to Granite Mountain | [F] Reclassification | [G] Staff Adjustments Disallowance | [H] Normalize | [I] Chino Meadows Direct | [J] Cost to be Allocated | [K] Portion allocated to unregulated Companies | [L] Amount allocated to unregulated Companies | [M] Amount allocated to regulated Companies | [N] Granite Mountain allocation | [O] Amount to be allocated to Granite Mountain | [P] Granite Mountain Direct |
|----------|-------------------------------|-------------------------------------|--|-------------------------|--|------------------|-----------------------------------|--------------------------------|---|--|--|---------------------------------------|---|--------------------------------------|
| 19 | Salaries and Wages | \$179,965 | \$0 | (\$15,718) | (\$17,444) | \$13,834 | \$0 | \$160,638 | 0% | \$0 | \$160,638 | 19.50% | \$31,324 | \$0 |
| 20 | Salaries and Wages - Officers | 31,700 | 6,000 | 0 | (4,673) | 0 | 0 | 33,027 | 0% | 0 | 33,027 | 19.50% | \$6,440 | 0 |
| 21 | Purchased Power | 24,401 | 247 | 0 | (46) | 0 | 22,110 | 2,493 | 10% | 249 | 2,244 | 19.50% | \$438 | 8,702 |
| 22 | Chemicals | 425 | 47 | 0 | 0 | 0 | 0 | 472 | 0% | 0 | 472 | 19.50% | 92 | 0 |
| 23 | Repairs and Maintenance | 8,899 | 633 | 1,281 | (124) | 0 | 2,159 | 8,530 | 0% | 0 | 8,530 | 19.50% | 1,663 | 2,035 |
| 24 | Office Supplies & Expense | 30,594 | 1,988 | (12,000) | (2,804) | (208) | 0 | 17,569 | 10% | 1,757 | 15,812 | 19.50% | 3,083 | 3,081 |
| 25 | Rents | 0 | 3,000 | 12,000 | 0 | 0 | 0 | 15,000 | 25% | 3,750 | 11,250 | 19.50% | 2,194 | 0 |
| 26 | Contractual Services | 11,457 | 490 | (500) | (1,232) | 0 | 3,489 | 6,726 | 0% | 0 | 6,726 | 19.50% | 1,312 | 10,863 |
| 27 | Transportation Expenses | 24,752 | 2,736 | 1,817 | (7,380) | (186) | 0 | 21,739 | 0% | 0 | 21,739 | 19.50% | 4,239 | 900 |
| 28 | Insurance - General Liability | 8,964 | 996 | 0 | (1,058) | 594 | 0 | 9,496 | 15% | 1,424 | 8,072 | 19.50% | 1,574 | 0 |
| 29 | Insurance - Health and Life | 2,667 | 296 | 0 | 0 | 0 | 0 | 2,963 | 10% | 296 | 2,667 | 19.50% | 520 | 0 |
| 30 | Miscellaneous Expenses | 8,848 | 245 | (3,397) | (2,301) | 0 | 2,903 | 490 | 0% | 0 | 490 | 19.50% | 96 | 0 |
| 31 | Payroll Taxes | 0 | 0 | 15,718 | (1,539) | 0 | 0 | 14,179 | 0% | 0 | 14,179 | 19.50% | 2,765 | 0 |
| 32 | Total | \$332,672 | \$16,678 | (\$799) | (\$38,601) | \$14,034 | \$30,661 | \$293,323 | 0% | \$7,477 | \$295,846 | 19.50% | \$55,740 | \$25,582 |

References:
Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [P] + Col [Q]
Column [D]: Chino Meadows Schedule TBH CM-14
Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [F]: Schedule TBH CM-19b
Column [G]: Schedule TBH CM-19c
Column [H]: Schedule TBH CM-19d
Column [I]: Chino Meadows Schedule TBH CM-20a, Co. [I]
Column [J]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H]
Column [K]: Testimony, TBI
Column [L]: Col [J] - Col [K]
Column [M]: Col [J] - Col [L]
Column [N]: Schedule TBH CM-20e
Column [O]: Col [M] - Col [N]

| Calculation of Cost Shift | | |
|---------------------------|--------|----------|
| Staff | 73,811 | |
| Company | 32,890 | |
| Cost Shift | 40,921 | Granite |
| | 8,086 | |
| | - | |
| Cost Shift | 8,086 | Antelope |
| Total Cost Shift | 49,006 | Total |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS DISALLOWED

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$17,444) | \$162,521 |
| 2 | Salaries and Wages - Officers | 31,700 | (4,673) | 27,027 |
| 3 | Purchased Power | 24,401 | (46) | 24,355 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | (124) | 8,775 |
| 6 | Office Supplies & Expense | 30,594 | (2,804) | 27,790 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | (1,232) | 10,225 |
| 9 | Transportation Expenses | 24,752 | (7,380) | 17,372 |
| 10 | Insurance - General Liability | 8,964 | (1,058) | 7,906 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (2,301) | 6,547 |
| 13 | Payroll Taxes | 0 | (1,539) | (1,539) |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Non-regulated salaries and wages | (\$17,444) | (\$17,444) | |
| 18 | | | | |
| 19 | Salaries and Wages - Officers | | | |
| 20 | Pay adjusted to reflect actual time worked | \$0 | | |
| 21 | Duties assigned to office manager | (4,673) | (4,673) | |
| 22 | | | | |
| 23 | Purchased Power | | | |
| 24 | To adjust for late fees | (\$46) | (\$46) | |
| 25 | | | | |
| 26 | Repairs and Maintenance | | | |
| 27 | To adjust for personal expense | (\$124) | (\$124) | |
| 28 | | | | |
| 29 | Office Supplies & Expense | | | |
| 30 | Interest and Late Fees | (\$44) | | |
| 31 | Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan | (1,888) | | |
| 32 | Meals | (218) | | |
| 33 | Miscellaneous Personal Expenses | (524) | | |
| 34 | 2010 Expense | (130) | (\$2,804) | |
| 35 | | | | |
| 36 | Contractual Services | | | |
| 37 | Legal Fees for Fire | (\$1,232) | (\$1,232) | |
| 38 | | | | |
| 39 | Transportation Expenses | | | |
| 40 | Gas Reimbursement \$100 per month - Company no longer providing | (\$800) | | |
| 41 | Personal Use Purchases - Tires | (2,497) | | |
| 42 | Out of State Gasoline Purchase | (2,229) | | |
| 43 | Bulk Delivery of Gasoline to Paul's Home (530 gallons) | (1,854) | (\$7,380) | |
| 44 | | | | |
| 45 | Insurance - General Liability | | | |
| 46 | Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co. | (\$1,058) | (\$1,058) | |
| 47 | | | | |
| 48 | Miscellaneous Expenses | | | |
| 49 | Gifts | (\$1,559) | | |
| 50 | Meals | (683) | | |
| 51 | Donations | (60) | (\$2,301) | |
| 52 | | | | |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Schedule TBH GM-20e
Company Workpaper

OPERATING INCOME ADJUSTMENT NO. 8 - 4-FACTOR ALLOCATION CALCULATION

| Line No. | Company | Weight 2.5x | | Weight 2.5x | | Weight 1x | | Simplified Allocation Factor % |
|----------|---|--------------------------|----------------------------|-------------------------------|---------------------------------|------------------------|--------------------------|--------------------------------|
| | | Customer Count Test Year | Customer Count % Test Year | Customer Count 2018 Projected | Customer Count % 2018 Projected | Gross Plant in Service | Gross Plant in Service % | |
| 1 | Antelope Lakes | 2 | | 2 | | \$116,938 | | |
| 2 | | | | | | | | |
| 3 | Chino Meadows | 899 | 88.14% | 899 | 85.86% | 795,909 | 47.90% | 80.5% |
| 4 | Granite Mountain | 121 | 11.86% | 148 | 14.14% | 865,831 | 52.10% | 19.5% |
| 5 | Total | 1,020 | | 1,047 | | \$1,661,740 | | 100.0% |
| 6 | | | | | | | | |
| 7 | Note: Antelope Lakes shown for reference only, not used in cost allocation model. | | | | | | | |
| 8 | | | | | | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

| LINE NO. | DESCRIPTION | [A] | |
|----------|--|-----------------|------------------------|
| | | Officer Salary | Hours worked per month |
| 1 | Supervision and management of company personnel | | 12 |
| 2 | Oversight of company operations | | 6 |
| 3 | Provide strategic direction | | 6 |
| 4 | Review company financial data including payables, receivable, revenue and expenses | | 12 |
| 5 | Provide legal representation for Company | | 8 |
| 6 | Review payroll and sign checks | | 4 |
| 7 | Review and authorize all vendor payments | | 4 |
| 8 | Acquire regulate and oversee company loans and long-term debts | | 8 |
| 9 | Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available | | 20 |
| 10 | Develop and review company processes and procedures to ensure regulatory compliance | | 8 |
| 11 | Review & advise Company on manuals such as employee handbook & emergency response manual | | 1 |
| 12 | Total Monthly Hours | | 89 |
| 13 | | | |
| 14 | Calculated Salary - Monthly Hours * \$36.25 * 12 months | 38,715.00 | |
| 15 | Actual Salary | 37,700.00 | |
| 16 | | | |
| 17 | Lower of Calculated Salary and Actual Salary | \$37,700 | |
| 18 | Less Additional Increase for Operations Manager from 2013 to 2014 ² | (4,673) | |
| 19 | Adjusted Officers Salary | \$33,027 | |
| 20 | ¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain = | | |
| 21 | \$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25 | | |
| 22 | ² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673. | | |

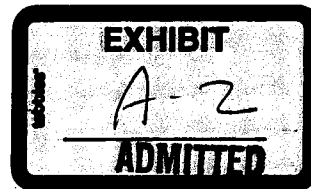
References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE



IN THE MATTER OF THE APPLICATION OF
GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL OF A RATE INCREASE

DOCKET NO. W-02467A-14-0230

**REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
SEPTEMBER 18, 2015**

**REJOINDER TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
September 18, 2015**

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1 **EXECUTIVE SUMMARY**

2 Mr. Jones responds to the surrebuttal testimony of the Arizona Corporation Commission's
3 Utilities Division Staff. Mr. Jones addresses the allocation of costs between Chino and Granite
4 and differences in post-test year plant positions.

5 The Company's proposed revenue requirements, associated rate increases and all other positions
6 are unchanged from its rebuttal testimony.

I INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Ray L. Jones. My business address is 18835 North Thompson Peak Parkway, Suite 215, Scottsdale, AZ 85255, and my business phone is (623) 341-4771.

Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED REBUTTAL TESTIMONY IN THIS DOCKET??

A. Yes.

II RESPONSE TO STAFF'S SURREBUTTAL TESTIMONY

Q. HAVE YOU REVIEWED STAFF'S SURREBUTTAL TESTIMONY IN THIS CASE?

A. Yes, I reviewed the testimony provided by Teresa B. Hunsaker and Dorothy Hains.

Cost Allocation Issue

Q. WHAT WAS YOUR ASSESSMENT OF STAFF'S SURREBUTTAL POSITION REGARDING COST ALLOCATIONS BETWEEN GRANITE AND CHINO?

A. Staff's surrebuttal position includes some movement on the cost allocation between Chino and Granite toward the position advocated by the Company. The revenue requirement and required rate increase for Granite recommended by Staff are appropriately lower to reflect this change in cost allocation. However, as I discuss at greater length in my Chino Rejoinder Testimony in Docket No. W-02370A-14-0231, Staff did not update Chino's recommended revenue requirement, which remains unchanged from its direct testimony, to reflect these changes in its position.

In the end, Staff's surrebuttal testimony is nothing more than a collection of seemingly reasonable responses to the Company's rebuttal position—actually wholly ignored—

1 which ultimately produce the absurd outcome where Staff's seemingly reasonable
2 response leave the combined operations of Chino and Granite worse off than if Staff had
3 not "updated" its position.

4 **Q. WOULD YOU EXPLAIN?**

5 As more fully explained in the Company's rebuttal testimony, the Company's most
6 significant overall concern is the allocation of common costs between Chino and Granite.
7 The Company has historically allocated costs based on customer counts, which are
8 currently 88% Chino 12% Granite. Staff's direct position, allocating only 70.12% of
9 costs to Chino and 26.93% to Granite, dramatically shifted a very significant \$49,006 in
10 costs and related revenue from Chino. The Company was concerned with this shift
11 because Granite has fewer customers, lower water sales, higher levels of plant investment
12 and higher rates. Shifting costs to Granite would create revenue instability for the water
13 companies as a whole. Since Granite's water sales are only 15.5% of the combined total
14 sales for Chino and Granite, each \$10,000 shift in costs lowers rates for Chino by about
15 \$0.25 per 1,000 gallons while increasing rates in Granite by about \$1.06 per 1,000
16 gallons. Due to this disparate impact to rates, aggressive shifting of costs to Granite is
17 certain to increase revenue instability because Granite would almost certainly under-
18 collect its authorized revenue by a significant magnitude.

19 Staff has responded to the Company's concerns by altering its cost allocation model to
20 allocate more costs to Chino and fewer to Granite. Staff's current recommendation is
21 74% to Chino and 25% to Granite. This recommendation results in an additional \$10,634
22 in expense allocated to Chino compared to Staff's original recommendation. This, on its
23 face, appears to at least partially address the Company's cost allocation concerns.
24 However, because Staff failed to increase Chino's revenue requirement to recover these
25 additional expenses, neither Chino nor Granite will be able to recover these expenses. So

1 instead of Granite being unlikely to recover \$10,634 in common expenses, Staff would
2 instead guarantee that neither Granite nor Chino would recover these \$10,634 in common
3 expenses. The net effect of Staff's incomplete allocation would be to make the
4 combined operations of Chino and Granite are worse off.

5 **Q. WHY IS THIS COST ALLOCATION ISSUE IMPORTANT TO CHINO AND**
6 **GRANITE?**

7 A. Chino and Granite are both small companies facing the numerous challenges and issues
8 faced by small companies throughout Arizona. Like other small water companies, Chino
9 and Granite need to be properly positioned for consolidation and, until that can occur,
10 they need to remain viable and have sufficient earnings to encourage investment in
11 infrastructure.

12 Chino has increased rates by less than one percent over the past 20 years and is only
13 requesting a modest increase in this case. In contrast, Granite is attempting to recover
14 significant investment in new plant and is facing a large rate increase. Staff proposes to
15 keep Chino rates unchanged by significantly shifting costs to Granite. Both Chino and
16 Granite need sufficient revenue to allow for future improvements and attract new
17 investment into their water systems.

18 The abrupt cost shift from Chino to Granite proposed by Staff will destabilize the revenue
19 of both companies, further reduce the common operation's ability to cover its common
20 expenses, and further harm the operations of both Chino and Granite. Ultimately, the
21 proposed cost shift could impair the Companies' ability to implement the operational
22 improvements desired by Staff and committed to by the Companies.

23 Lastly, Staff's proposal moves the companies contrary to industry trends. The
24 Commission and industry are exploring ways to encourage consolidation and to make it

1 easier for small water companies to be acquired by larger, better capitalized companies.
2 Even California has taken steps to improve the financial health of its small water
3 companies and make them more attractive for new investment. Unfortunately, the cost
4 shift embedded in Staff's recommendation runs contrary to these Commission, industry,
5 and neighboring-state regulatory policies.

6 **Post-Test Year Plant Costs**

7 **Q. HAVE THE PARTIES MADE ANY PROGRESS REGARDING THE DISPUTED**
8 **COST FOR THE EASEMENT, STRUCTURES, AND WELL PURCHASED FOR**
9 **WELL NO. 6?**

10 A. Unfortunately no. Staff surrebuttal position actually decreases its cost for Well No. 6 by
11 \$7,768.

12 **Q. WHAT CAUSED THIS REDUCTION BY STAFF?**

13 A. Staff appears to have selectively applied information from the appraisal provided by the
14 Company to reduce the value of certain items while ignoring the remainder of the
15 appraisal.

16 **Q. IS THE COMPANY UPDATING ITS POSITION ON WELL NO. 6 COSTS?**

17 A. No. The Company continues to request recovery of the \$75,000 actually paid to acquire
18 Well No. 6, which is less than the \$80,000 appraised value of the acquired property and
19 equipment.

20 **Q. HOW WOULD YOU DESCRIBE STAFF'S APPROACH TO DETERMINING**
21 **THE COST OF WELL NO. 6?**

22 A. Staff seems to have tried to arrive at the lowest possible supportable cost without
23 consideration of the specific circumstances of this well purchase. Staff calculates a
24 theoretical minimum easement area without consideration of the need to drill a

1 replacement well in the future. Staff further discounts the value of outbuildings that were
2 pre-existing on the property, of no use to the previous owners, and that the Company
3 intends to use to support its operations. While I understand the need to assure that the
4 Company's customers are not subsidizing an affiliate, in this case Staff's approach vastly
5 oversimplifies a very complex situation and fails to reflect the value that this well
6 provides to the Company and its customers. Ultimately, Staff has valued an existing
7 well— known to produce high-quality water in sufficient quantity to support Granite
8 Mountain's needs— together with a well house and all required land rights for both the
9 well and connecting water lines at an unrealistically low \$29,432. This is less than the
10 \$32,625 cost estimate to drill a new well (not including necessary hydrogeologic studies
11 and permitting) received from Drill Tech, which would not be guaranteed to provide
12 adequate, high-quality water. Effectively, Staff has assigned a negative value to the total
13 of three positive factors:

- 14 1. Unlike a new well in another location, the acquired well is known to produce
15 sufficient quantities of high quality water;
- 16 2. To drill a new well, the Company would have to acquire land for the well and
17 associated water lines. The actually-acquired land provides room for one well,
18 with adequate room to drill additional or replacement wells and to run water lines;
- 19 3. The existing buildings will be used to support the Company's operations.

20 **Q. CAN YOU FUTHER EXPLAIN THE BASIS FOR THESE POSITIVES, WHICH**
21 **STAFF VALUES NEGATIVELY?**

22 **A.** To understand the Company's position it is first necessary to understand the challenge
23 facing the Company. It is not easy to develop a new water supply in the Company's
24 service area. The prospect of drilling a new well is daunting. First a suitable site must be
25 located that is both likely to produce water and, to get a well drilling permit from ADWR,

1 the proposed well cannot negatively impact any existing wells. The Company was not
2 able to locate such a site at any price. Next a well must actually be drilled and there is no
3 guarantee of success. The Company estimated the cost of drilling at \$32,625 based on an
4 estimate provided by Drill Tech. This cost could easily escalate, potentially doubling or
5 even tripling, if an initial effort was unsuccessful.

6 Ultimately the Company became aware of the Well No. 6 property. The property had
7 gone through foreclosure and was listed by Federal National Mortgage Association for
8 \$185,000. Granite Mountain believed that the property could be purchased for \$155,000.
9 However Granite Mountain did not have \$155,000 and could not borrow or otherwise
10 secure \$155,000 to purchase the property. But, a purchase had to be done quickly,
11 because the property was "bank owned" and would not likely remain long on the market.
12 Furthermore, Granite Mountain was not in a position to take the risk associated with
13 purchasing a bank-owned property, which would be sold as-is and subject to liens, claims
14 and damages without recourse to the seller, Federal National Mortgage Association.

15 Because the Company's need for the well was so great and because the time to acquire
16 the property was short, as an accommodation to her father, Shauna Duke and her
17 husband, Jonathan Duke, purchased the property from the Federal National Mortgage
18 Association for \$155,000. The Duke's purchased the property solely to allow Granite
19 Mountain to use the well.

20 The Duke's and the Company placed a value of \$75,000 on an easement that would allow
21 Granite to permanently use the well, the well house and portions of the property for water
22 utility purposes. In agreeing to the \$75,000 purchase price, the Company took into
23 consideration the following:

- 1 • The difficulty in finding suitable sites within Granite's service area to drill potable
2 wells that will produce an adequate quantity and quality of water.
- 3 • The fact that Well No. 6 is known to provide water of suitable quantity and
4 quality for use as a potable water supply.
- 5 • The lack of other suitable and available parcels within Granite's service area with
6 an existing well of suitable quantity and quality for use as a potable water supply.
- 7 • The Company's inability to finance the purchase a well or well site in advance of
8 placing the well into service and obtaining regulatory recovery.
- 9 • The Company's inability to finance the full purchase price of the property on
10 which Well No. 6 was located, particularly in the short time frame available to
11 close a purchase of the bank owned property.
- 12 • The willingness of the Duke's to purchase the bank owned property containing
13 the existing Well No. 6 and grant an easement to Granite Mountain that
14 substantially devalues the underlying property.
- 15 • The willingness of the Dukes to grant the easement at a significant discount to the
16 full purchase price and market value of the property.
- 17 • The willingness of the Dukes to accept deferred payment terms for the value of
18 the easement more closely aligned with the Company's ability to finance and
19 recover the costs of the easement.
- 20 • The comparable cost of drilling and developing a new well.
- 21 • The price paid by the Duke's for the underlying property.
- 22 • The market value of the property, including the existing well.

1 Due to the inherent value of the well and the significant encumbrance to the property, it is
2 very unlikely that any property owner, other than a relative, would ever grant an
3 easement such as was given to Granite Mountain by the Dukes for less than the full
4 market value of the property. In this case, transacting with an affiliate provided
5 substantial benefits to the regulated utility.

6 The Company's reference to a "significant discount to the full purchase price" compares
7 the \$75,000 to be paid for the easement in the affiliate transaction, *which no unrelated*
8 *third party would likely accept*, to the \$155,000 purchase price for the property paid by
9 the Dukes.

10 Effectively, the Company saved \$80,000 over the minimum price that the Company
11 would have needed to pay even if it could have raised \$155,000. This was clearly in its
12 customers' interest. Another reason that the purchase was in the customers' interest is
13 that the purchase allowed use of a badly needed well that could not have been otherwise
14 constructed. If a third party had purchased the property, it may have been impossible to
15 obtain the well site at any price.

16 Based on the foregoing, the \$75,000 paid by the Company for the easement and well is an
17 extremely fair price paid for an existing well with proven water production of drinking
18 water quality. The amount paid is supported by a real estate appraisal supporting a cost
19 for \$80,000. The full \$75,000 should be included in the Company's rate base.

20 **Q. WHAT IS THE STATUS OF TANK NO. 3?**

21 A. The Company continues to expect to complete the tank in the next couple of months and
22 requests inclusion of the cost a post-test year plant. Staff continues to oppose the
23 inclusion of costs for the tank.

Other Issues

Q. HAS THE COMPANY UPDATED ITS POSITION FROM ITS REBUTTAL TESTIMONY?

A. The Company's position is unchanged.

Q. WHAT ARE THE CURRENT AREAS OF DISAGREEMENT BETWEEN STAFF AND THE COMPANY?

A. The Company opposes Staff Rate Base Adjustment No. 3 removing 10% of the cost of \$96,432 of plant in service from rate base by increasing the Company's CIAC balance by \$9,643.

There are three areas of disagreement between the Company and Staff regarding expenses. First, as discussed above, the Company and Staff are recommending different allocation percentages between Chino and Granite. Second the parties disagree on the salary level of Mr. Levie. Lastly the Company and Staff propose differing levels of depreciation expense due to the differing levels of CIAC (Rate Base Adjustment No. 1). Also in regard to depreciation expense, Staff appears to have under calculated depreciation expense for pumping equipment by overstating the amount of fully depreciated plant by the amount of a post-test year retirement.

The Company and Staff are in agreement regarding the methodology for calculating the level of working capital and property tax expense. Staff still appears to be using corporate income tax rates while the company uses personal income tax rates to calculate income tax expense. Since the Company and Staff disagree on their revenue and expense recommendations the specific recommendations for these items are different.

The Company continues to be concerned that Staff's proposed rate design inappropriately shifts revenue from the base charge to both second and third tier commodity charges.

1 The parties have not altered their positions on penalties, a recommended code of conduct,
2 and related recommendations. Accordingly, several additional items remain in dispute.

3 **Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?**

4 **A. Yes.**



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE, Chairman
BOB STUMP
BOB BURNS
TOM FORESE

IN THE MATTER OF THE APPLICATION OF
GRANITE MOUNTAIN WATER COMPANY,
INC. FOR APPROVAL OF A RATE INCREASE

DOCKET NO. W-02467A-14-0230

**SUPPLEMENTAL DIRECT TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
JANUARY 21, 2016**

**SUPPLEMENTAL DIRECT TESTIMONY
OF
RAY L. JONES
ON BEHALF OF
GRANITE MOUNTAIN WATER COMPANY, INC.
JANUARY 21, 2016**

I INTRODUCTION

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE
NUMBER.**

A. My name is Ray L. Jones. My business address is 18835 North Thompson Peak
Parkway, Suite 215, Scottsdale, AZ 85255, and my business phone is (623) 341-4771.

**Q. ARE YOU THE SAME RAY L. JONES WHO PREVIOUSLY SUBMITTED
TESTIMONY IN THIS DOCKET?**

A. Yes.

II LATE FILED EXHIBITS

**Q. PLEASE SUMMARIZE THE LATE-FILED EXHIBITS SUBMITTED BY THE
COMPANY IN THIS CASE?**

A. On November 30, 2015, the Company filed the following late-filed exhibits:

- Post-hearing Exhibit A-3

This exhibit contains an accounting report showing affiliated receivables from
12/31/2013 to 11/13/2015 and a report from the Company's billing system
showing payment history on four accounts of Daniel (Danny) Levie for the
period 1/1/13 to 11/25/15.

- Post-hearing Exhibit A-4

1 This exhibit is an accounting report and supporting documentation showing
2 deposits and transactions for the WIFA Loan Bank Account required by
3 Decision No. 74384.

4 **Post-hearing Exhibit A-3**

5 **Q. PLEASE DESCRIBE THE ACCOUNTING REPORT INCLUDED AS PART OF**
6 **EXHIBIT A-3.**

7 A. This report shows all transactions related to receivables from entities affiliated with The
8 Company from the period 12/31/13 to 11/13/15. The report contains accounts for the
9 following affiliates:

- 10 • Chino Meadows II Water Co.
- 11 • Antelope Lakes Water Co.
- 12 • GFL CMI Tract B Water Line (Loan to Mr. Paul Levie)
- 13 • PDL Trust (Loan to trust controlled by Mr. Paul Levie)
- 14 • Zooki, LLC

15 **Q. WHAT DOES THE ACCOUNTING REPORT INDICATE REGARDING THESE**
16 **ACCOUNTS?**

17 A. The report indicates that the receivables from the three non-water company affiliates have
18 been paid in full. More specifically, the loan to Mr. Levie for the Tract B Water Line and
19 the loan to Mr. Levie's trust were paid in full on 12/5/14. The amount due from Zookie,
20 LLC was paid in full on 11/13/15. With the payment in full of these three receivables,
21 Granite Mountain has no further amounts receivable from non-water company affiliates.

22 With respect to the receivable from Chino Meadows II Water Co., the report indicates
23 that Chino Meadows has reduced the outstanding balance from \$19,891.00 to \$9,239.98
24 over the course of the period covered by the report.

1 With respect to the receivable from Antelope Lakes Water Co., the report indicates that
2 the amount receivable is unchanged at \$8,782.46.

3 **Q. DOES THE COMPANY HAVE ANY RECEIVABLES FROM AFFILIATES**
4 **THAT ARE NOT REFLECTED ON THE ACCOUNTING REPORT?**

5 A. Except for current customer receivables for customer accounts held by Mr. Levie and his
6 immediate family, there are no other receivables from affiliates.

7 **Q. PLEASE DESCRIBE THE BILLING SYSTEM REPORT INCLUDED AS PART OF**
8 **EXHIBIT A-3.**

9 A. This report shows the billing and payment history for four customer accounts held by Mr.
10 Daniel (Danny) Levie. The accounts are:

- 11 • 80.001.02 – Granite Mountain Stables
- 12 • 81.002.01 – Daniel P. Levie (2400 Shane Drive)
- 13 • 80.012.00 – Daniel P. Levie (7280 N. Stable Lane)
- 14 • 80.002.01 – Daniel P. Levie (2480 Shane Drive)

15 **Q. WHAT DOES THE BILLING SYSTEM REPORT INDICATE REGARDING**
16 **THESE ACCOUNTS?**

17 A. The report indicates that all four accounts are current and that the accounts have a history
18 of regular payments made in accordance with the Company's tariff requirements.

19 **Post-hearing Exhibit A-4**

20 **Q. PLEASE DESCRIBE THE ACCOUNTING REPORT INCLUDED AS PART OF**
21 **EXHIBIT A-4.**

22 A. This report shows all transactions related to a bank account used for payments on the
23 Company's WIFA loan as required by Decision No. 74384.

1 **Q. DOES THE REPORT INDICATE THAT THE COMPANY IS IN COMPLIANCE**
2 **WITH THE REQUIREMENTS OF DECISION NO. 74384?**

3 A. Yes. The Company began making regular monthly deposits as required by Decision No.
4 74384 in November of 2014. In September of 2015, the Company made a deposit for
5 amounts required for the period May 2014 through October 2014. As of the date of the
6 report, the Company had made deposits as required for the period from May 2014
7 through October 2015. All withdrawals from the account are for WIFA loan payment or
8 for fees charged by the bank. The Company is in compliance with Decision No. 74384.

9 **III POST-TEST YEAR PLANT – STORAGE TANK NO. 3**

10 **Q. HAS THE COMPANY COMPLETED CONSTRUCTION OF STORAGE TANK**
11 **NO. 3 AND PLACED THE TANK INTO SERVICE?**

12 A. Yes. The Company completed construction of the tank, including disinfection and
13 receipt of satisfactory bacteriological test results on November 16, 2015. On December
14 3, 2015, the Arizona Department of Environmental Quality issued an Approval to
15 Construct (“AOC”) for Storage Tank No. 3. A copy of the AOC is attached as Exhibit A.
16 On December 5, 2015, the Company placed Storage Tank No. 3 into service.

17 **Q. WHAT WAS THE FINAL COST OF STORAGE TANK NO. 3?**

18 A. The final cost of Storage Tank No. 3 is \$106,043.13. A full summary of the costs with
19 supporting invoices is attached as Exhibit B.

20 **Q. DOES THE FINAL COST OF STORAGE TANK NO. 3 INCLUDE ANY**
21 **UNNECESSARY COSTS DUE TO THE NEED TO HIRE A SECOND**
22 **CONTRACTOR TO FINISH CONSTRUCTION OF THE TANK?**

23 A. As indicated on Exhibit B, the Company was able to obtain a refund in the amount of
24 \$18,925 from the original contractor for unfinished work and their failure to complete the

1 tank in a timely manner. The Company believes that with the inclusion of this credit,
2 most, if not all, of the unnecessary or duplicate costs of constructing the tank were
3 eliminated.

4 However, in order to be certain there are no duplicate costs and to address Staff's concern
5 regarding this issue, as shown on Exhibit B, the Company has reduced the cost of the
6 tank by \$3,820.45. The reduction of \$3,820.45 lowers the tank construction costs to the
7 original bid of \$93,650.00, eliminating any possibility of duplicate costs. After the cost
8 reduction, the cost of Storage Tank No. 3, including engineering, construction and
9 miscellaneous items is \$102,222.68.

10 **Q. WHAT IS THE AMOUNT OF POST-TEST YEAR PLANT REQUESTED BY**
11 **THE COMPANY FOR STORAGE TANK NO. 3?**

12 A. The Company is requesting inclusion of \$102,222.68 in post-test year plant costs for
13 Storage Tank No. 3.

14 **IV UPDATED SCHEDULES**

15 **Q. HAS THE COMPANY PREPARED UPDATED SCHEDULES DETAILING ITS**
16 **CURRENT POSITION, INCLUDING \$102,222.68 IN POST-TEST YEAR PLANT**
17 **FOR STORAGE TANK NO. 3.**

18 A. Yes. A full set of schedules detailing the Company's current position are attached as
19 Exhibit C.

20 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?**

21 A. Yes.

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Supplemental Direct Testimony of Ray L. Jones

Testimony Exhibits



Douglas A. Ducey
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY



Misael Cabrera
Director

APPROVAL OF CONSTRUCTION

Project Description: Granite Mountain Water Storage Tank. AOC permit is for installation of 1-50,000 gallon water storage tank and associated yard piping.

Location: Prescott, AZ

Project Owner: Granite Mountain Water Company
Address: P.O. Box 350, Chino Valley, AZ 86323

The Arizona Department of Environmental Quality (ADEQ) hereby issues an Approval of Construction for the above-described facility based on the following provisions of Arizona Administrative Code (A.A.C.) R18-5-507 et seq.

On November 17, 2015 GlenLee Vortherms, P.E., certified that the project was built according to the as-built plans and specifications and ADEQ's Certificate of Approval to Construct.

On July 27, 2011 ADEQ issued a Certificate of Approval to Construct for the referenced project.

This Approval of Construction authorizes the owner to begin operating the above-described facilities as represented in the approved plan on file with the ADEQ. Be advised that A.A.C. R18-4-203 requires the owner of a public water system to maintain and operate all water production, treatment and distribution facilities in accordance with ADEQ Safe Drinking Water Rules.

SA3
PWS No.: 13150
LTF No.: 63268

Fahmida Maula 12/3/15
Fahmida Maula, P.E. Date Approved
Engineering Review Unit
Drinking Water Section

c: ADEQ File No.: 20110161
Yavapai County Health Department
AZ Corporation Commission
GlenLee Vortherms, P.E.

RIGHT TO APPEAL INFORMATION

The Arizona Department of Environmental Quality's review of this application was subject to the requirements of the licensing time frames ("LTF") statute under Arizona Revised Statutes ("A.R.S.") § 41-1072 through § 41-1079 and the LTF rules under Arizona Administrative Code ("A.A.C.") R18-1-501 through R18-1-525. This Notice is being issued within the overall time frame for your application.

ADEQ hereby approves your application for Approval of Construction Drinking Water Facilities under A.R.S. § 49-351. Your copy of the Approval of Construction Permit is on the reverse side of this Right to Appeal Information sheet.

This decision is an appealable agency action under A.R.S. § 41-1092. You have a right to request a hearing and file an appeal under A.R.S. § 41-1092.03(B). You must file a written Request for Hearing or Notice of Appeal within **30 days** of your receipt of this Notice. A Request for Hearing or Notice of Appeal is filed when it is received by ADEQ's Hearing Administrator as follows:

Office of Administrative Counsel
Arizona Department of Environmental Quality
1110 W. Washington Street
Phoenix, AZ 85007

The Request for Hearing or Notice of Appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. Upon proper filing of a Request for Hearing or Notice of Appeal, ADEQ will serve a Notice of Hearing on all parties to the appeal. If you file a timely Request for Hearing or Notice of Appeal you have a right to request an informal settlement conference with ADEQ under A.R.S. § 41-1092.06. This request must be made in writing no later than **20 days** before a scheduled hearing and must be filed with the Hearing Administrator at the above address.

Please contact Steven J Vevang at (602) 771-4648 or sv4@azdeq.gov if you have questions regarding this Notice or the Certificate of Approved of Construction.

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Supplemental Direct Testimony of Ray L. Jones

Exhibit B

Granite Mountain Water Co., Inc.
TANK #3 COST SUMMARY

| Item | Type | Date | Num | Name | Memo | Amount | Engineering & Permitting | Tank Construction | Materials & Misc. |
|------|---------|------------|------|---------------------------------|---|---|--------------------------|-------------------|-------------------|
| 1 | Check | 05/25/2011 | 1608 | Glen Vortherms | Engineering Plans & Report/As-Built Tank #3 | \$ 900.00 | \$ 900.00 | | |
| 2 | Check | 07/05/2011 | 1629 | Arizona Dept of Environmental | ADEQ Engineering Review GNMWC Tank #3 A | 800.00 | 800.00 | | |
| 3 | Check | 07/27/2011 | 1652 | American Express | Postage-ADEQ Tank #3 Engineering Review | 11.44 | 11.44 | | |
| 4 | Check | 07/27/2011 | 1652 | American Express | A&E Repographics (5) Copies of Eng Plans f... | 92.82 | 92.82 | | |
| 5 | Check | 04/10/2014 | 5510 | Arden Barney | BS Building Permit for 3rd water tank 50,0000 | 100.00 | 100.00 | | |
| 6 | Check | 05/22/2014 | 5555 | Yavapai County Development S... | Building Permit Fees | 485.00 | 485.00 | | |
| 7 | Check | 06/18/2014 | 5589 | Yavapai County Development S... | Tank Permit | 415.00 | 415.00 | | |
| 8 | Check | 09/12/2014 | 5688 | David Larson | Draw #1 Tank Construction | 6,300.00 | | 6,300.00 | |
| 9 | Check | 09/19/2014 | 5703 | David Larson | Draw #2 Tank Construction | 6,300.00 | | 6,300.00 | |
| 10 | Check | 02/09/2015 | 5873 | Chapman Electric | 50k Gal Water tank | 34,225.00 | | 34,225.00 | |
| 11 | Check | 04/17/2015 | 5954 | Chapman Electric | 50k Gal Water tank Sales tax Payable | 2,800.13 | | 2,800.13 | |
| 12 | Check | 07/30/2015 | 6056 | Chapman Electric | Draw 2 and Materials | 28,770.32 | | 28,770.32 | |
| 13 | Check | 09/28/2015 | 6116 | Cashion Tank & Steel, Co. | Tank #3- First Draw | 15,000.00 | | 15,000.00 | |
| 14 | Check | 10/16/2015 | 6137 | Cashion Tank & Steel, Co. | Tank #3- 2nd Draw | 10,000.00 | | 10,000.00 | |
| 15 | Deposit | 10/16/2015 | | Chapman Electric | Reimbursement for work not performed | (18,925.00) | | (18,925.00) | |
| 16 | Check | 10/26/2015 | 6147 | Dana Kepner Company Inc | Customer # 26840000- See invoice | 2,263.01 | | | 2,263.01 |
| 17 | Check | 11/02/2015 | 6151 | Cashion Tank & Steel, Co. | Tank #3- Last Draw | 13,000.00 | | 13,000.00 | |
| 18 | Check | 11/11/2015 | 6172 | Chino Ship & Copy | Signage for Construction of tank per WIFA | 30.90 | | | 30.90 |
| 19 | Check | 11/13/2015 | 6176 | Home Depot | Paint for tank # 3 | 37.07 | | | 37.07 |
| 20 | Check | 11/13/2015 | 6177 | John Deere Financial | Fire Control Materials and supplies | 37.44 | | | 37.44 |
| 21 | Check | 11/18/2015 | 6182 | Vortherms Consulting, LLC | Review WIFA Docs, Certify Documents, Prep... | 3,420.00 | 3,420.00 | | |
| | | | | | | \$ 106,043.13 | \$ 6,204.26 | \$ 97,470.45 | \$ 2,368.42 |
| | | | | | | (3,820.45) | | | |
| | | | | | | (3,820.45) | | | |
| | | | | | | Less Duplicate Tank Construction Costs (limits tank cost to 1/20/15 Bid Cost of \$93,650) | | | |
| | | | | | | Final Tank Costs for inclusion in rate base \$ 102,222.68 | | | |
| | | | | | | \$ 6,204.26 \$ 93,650.00 \$ 2,368.42 | | | |

Note: Invoices/documentation supporting line items 1 through 4 were destroyed in the fire at the Company's office and are not available.

12:24 PM

11/18/15

Accrual Basis

Granite Mountain Water Co., Inc.

Account QuickReport

All Transactions

| Type | Date | Num | Name | Memo | Amount | Balance |
|---|------------|------|-----------------------------------|---|-------------------|-------------------|
| 105.00 - Construction Work in Progress | | | | | | |
| 105.03 - Water Tank #3 (50K Gallons) | | | | | | |
| Check | 05/25/2011 | 1608 | Glen Vortherms | Engineering Plans & Report/As-Built's Tank #3 | 900.00 | 900.00 |
| Check | 07/05/2011 | 1629 | Arizona Dept of Environmental ... | ADEQ Engineering Review GMWC Tank #3 A... | 800.00 | 1,700.00 |
| Check | 07/27/2011 | 1652 | American Express | Postage-ADEQ Tank #3 Engineering Review ... | 11.44 | 1,711.44 |
| Check | 07/27/2011 | 1652 | American Express | A&E Repographics (5) Copies of Eng Plans f... | 92.82 | 1,804.26 |
| Check | 04/10/2014 | 5510 | Arden Barney | BS Building Permit for 3rd water tank 50,0000 | 100.00 | 1,904.26 |
| Check | 05/22/2014 | 5555 | Yavapai County Development S... | Building Permit Fees | 465.00 | 2,369.26 |
| Check | 06/18/2014 | 5589 | Yavapai County Development S... | Tank Permit | 415.00 | 2,784.26 |
| Check | 09/12/2014 | 5688 | David Larson | Draw #1 Tank Construction | 6,300.00 | 9,084.26 |
| Check | 09/19/2014 | 5703 | David Larson | Draw #2 Tank Construction | 6,300.00 | 15,384.26 |
| Check | 02/09/2015 | 5873 | Chapman Electric | 50k Gal Water tank | 34,225.00 | 49,609.26 |
| Check | 04/17/2015 | 5954 | Chapman Electric | 50k Gal Water tank Sales tax Payable | 2,800.13 | 52,409.39 |
| Check | 07/30/2015 | 6056 | Chapman Electric | Draw 2 and Materials | 28,770.32 | 81,179.71 |
| Check | 09/28/2015 | 6116 | Cashion Tank & Steel, Co. | Tank #3- First Draw | 15,000.00 | 96,179.71 |
| Check | 10/16/2015 | 6137 | Cashion Tank & Steel, Co. | Tank #3- 2nd Draw | 10,000.00 | 106,179.71 |
| Deposit | 10/16/2015 | | Chapman Electric | Reimbursement for work not performed | -18,925.00 | 87,254.71 |
| Check | 10/26/2015 | 6147 | Dana Kepner Company Inc | Customer # 26840000- See invoice | 2,263.01 | 89,517.72 |
| Check | 11/02/2015 | 6151 | Cashion Tank & Steel, Co. | Tank #3- Last Draw | 13,000.00 | 102,517.72 |
| Check | 11/11/2015 | 6172 | Chino Ship & Copy | Signage for Construction of tank per WIFA | 30.90 | 102,548.62 |
| Check | 11/13/2015 | 6176 | Home Depot | Paint for tank # 3 | 37.07 | 102,585.69 |
| Check | 11/13/2015 | 6177 | John Deere Financial | Fire Control Materials and supplies | 37.44 | 102,623.13 |
| Check | 11/18/2015 | 6182 | Vortherms Consulting, LLC | Review WIFA Docs, Certify Documents, Prap... | 3,420.00 | 106,043.13 |
| Total 105.03 - Water Tank #3 (50K Gallons) | | | | | 106,043.13 | 106,043.13 |
| Total 105.00 - Construction Work in Progress | | | | | 106,043.13 | 106,043.13 |
| TOTAL | | | | | 106,043.13 | 106,043.13 |

YAVAPAI COUNTY RECEIPT #: 14 00002027

By:

Cash

Date

4/15/2014

ARDEN BARNEY
GRANITE MOUNTAIN WATER COMPANY
PO BOX 350

Total Amount Paid

\$100.00

APPL# A12014001030

PERMIT#

PARCEL# 102-14-037

Account

BS Building Permit Revenue

Amount

(\$100.00)

5

4/10/2014

Arden Barney

**100.00

One Hundred and 00/100*****

Arden Barney

BS Building Permit for 3rd water tank 50,0000

Arden Barney

4/10/2014

105.00 · Construction Work in Progress:1 BS Building Permit for 3rd water tank 50,0000 100.00

National Bank BS Building Permit for 3rd water tank 50,0000 100.00

Arden Barney

4/10/2014

105.00 · Construction Work in Progress:1 BS Building Permit for 3rd water tank 50,0000 100.00

National Bank BS Building Permit for 3rd water tank 50,0000 100.00

(6)

APPLICATION FORM

| APPLICANT | |
|---|------------------|
| Project Name: | |
| Additional 50,000 gal water storage tank | |
| Located in: | |
| Sec 31-15-3w | Twn Prescott Rnd |
| Assessor's Tax Parcel Number(s): | |
| 102-14-037 | |
| Property Owner: | |
| Philips Living Trust | |
| Mailing Address: | |
| PO Box 350 | |
| City: | |
| Chino Valley | |
| State: | |
| AZ | |
| Zip Code: | |
| 86323 | |
| Phone: | |
| 928-778-2600 | |
| Fax: 9278-636-0684 | |
| E-mail: Arden@leviegroupp.com | |
| Applicant/Agent: (Circle One) | |
| Paul D. Levie | |
| Mailing Address: | |
| PO Box 350 | |
| City: | |
| Chino Valley | |
| State: | |
| AZ | |
| Zip Code: | |
| 86323 | |
| Phone: | |
| 928-778-2600 | |
| Fax: 928-6360684 | |
| E-mail: Arden@leviegroupp.com | |
| Request: | |
| Install additional 50,00 gal Water storage tank | |
| Legal Description: X See attached Legal Description OR: | |
| Lot: | Block: |
| Subdivision: | |
| I hereby certify that the information submitted on this application is complete and accurate to the best of my knowledge and that I am the owner or authorized agent of the same as stated in the attached documentation. | |
| Signature: <i>Paul D. Levie</i> | |
| Print Name: Paul D. Levie | |
| Date: | |

⑥

APPLICATION CHECKLIST

APPLICANT: Paul D. Levie

PARCEL #: 102-14-037

- ☒ 1) A mandatory pre-application meeting with the Development Services Representatives on (DATE) _____;
- ☒ 2) Application submittal form filled out completely;
- ☐ 3) Letter of Intent detailing the proposed use(s) and time period requested (if applicable);
- ☒ 4) A legal description of the property/lease area identified on the application; if too lengthy, please attach;
- ☐ 5) Letter of authorization signed and notarized if required;
- ☐ 6) A copy of deed restrictions that may apply to the subject property;
- ☒ 7) One (1) copy of a site plan showing: Parcel boundaries, Existing & Proposed Structures, Zoning classification, Adjacent roadways/legal access, Setbacks, Method of fencing, Signage, and Landscaping, if applicable. If plan is larger than 11"x17", then applicant must provide twenty (20) copies upon submittal;
- ☐ 8) A filing fee in the amount of \$465.00 (Determined by the Development Services fee schedule as adopted by the Board of Supervisors).
- ☐ 9) Letter of support from any Home Owners Association.
- ☐ 10) Permission to enter property statement.
- ☐ 11) The address and directions to the subject parcel for purposes of preparing the hearing notice and posting the property.

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

6

5555

5/22/2014

PAY TO THE ORDER OF Yavapai County Development Services

\$ **465.00

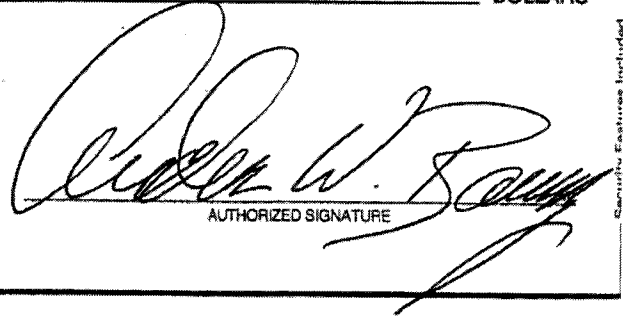
Four Hundred Sixty-Five and 00/100*****

DOLLARS

Yavapai County Development Services
500 South Marina Street
Prescott, AZ 86303

MEMO

Improvements


AUTHORIZED SIGNATURE

Granite Mountain Water Company

5555

Yavapai County Development Services
ask my accountant

5/22/2014

465.00

National Bank Improvements

465.00

Granite Mountain Water Company

5555

Yavapai County Development Services
ask my accountant

5/22/2014

465.00

National Bank Improvements

465.00



Paid By:

GRANITE MOUNTAIN WATER COMPANY
PO BOX 350
CHINO VALLEY AZ 86323

Check #

5589

Date

6/18/2014

Total Amount Paid

\$415.00

APPL# A12014001030**PERMIT#** P12014001495**PARCEL#** 102-14-037**Account****Amount**

BS Building Permit Revenue

(\$300.00)

Zoning Clearance Revenue

(\$100.00)

DS Electronic Document

(\$15.00)

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

7

5589

6/18/2014

PAY TO THE ORDER OF Yavapai County Development Services

\$ **415.00

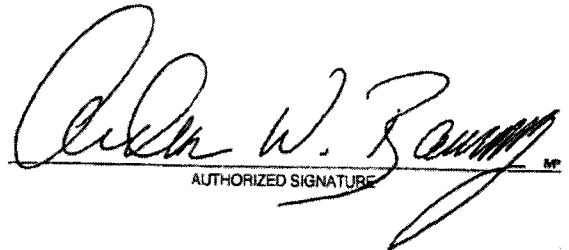
Four Hundred Fifteen and 00/100*****

DOLLARS

Yavapai County Development Services
500 South Marina Street
Prescott, AZ 86303

MEMO

Improvements- Tank permit


AUTHORIZED SIGNATURE

Granite Mountain Water Company

5589

Yavapai County Development Services
ask my accountant

Tank Permit

6/18/2014

415.00

National Bank Improvements- Tank permit

415.00

Granite Mountain Water Company

5589

Yavapai County Development Services
ask my accountant

Tank Permit

6/18/2014

415.00

National Bank Improvements- Tank permit

415.00

6

Invoice

[illegible]

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

5703

9/19/2014

THE
OF David Larson

\$ **6,300.00

Two Thousand Three Hundred and 00/100*****

DOLLARS

David Larson
6109 W Maui Lane
Glendale, AZ 85306

MEMO

New

[Signature]
AUTHORIZED SIGNATURE

Granite Mountain Water Company

5703

David Larson
105.00 · Construction Work in Progress:1 Well #4

9/19/2014

6,300.00

National Bank New

6,300.00

Granite Mountain Water Company

5703

David Larson
105.00 · Construction Work in Progress:1 Well #4

9/19/2014

6,300.00

National Bank

New

6,300.00

9

Invoice

[illegible]

Granite Mountain Water Company
501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

pay 9 5688
9/12/2014

PAY THE
ORDER OF

David Larson

\$ **6,300.00

Six Thousand Three Hundred and 00/100*****

DOLLARS

David Larson
6109 W Maui Lane
Glendale, AZ 85306

MEMO

New


AUTHORIZED SIGNATURE

Granite Mountain Water Company

5688

David Larson
105.00 - Construction Work in Progress Well #4

9/12/2014

6,300.00

National Bank New

6,300.00

Granite Mountain Water Company

5688

David Larson
105.00 - Construction Work in Progress Well #4

9/12/2014

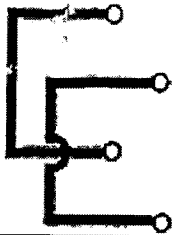
6,300.00

National Bank New

6,300.00

Details on Back

Security Features Included



Chapman Electrical Contracting, Inc.
6040 N. 57th Ave
Glendale, AZ 85301

Phone: 623-937-1629 MBL: 623-910-6573
Fax: 623-937-6396

(10)

| | |
|-----------|--------------|
| Quote #: | 32477 |
| Date: | 1-20-15 |
| Quote by: | Chet Chapman |

Quote To:

Arden Barney
Granit Mountain Water Co.
P.O. Box 350 Chino Valley, Az. 86323
Email: arden@leviegroupp.com
Office: 1-928-717-2616
Mbl: 1-928-899-7669

Thank you for the opportunity to provide you with the following quotation. Please review the information below. If there are any questions regarding scope of work or pricing please contact us using the information listed above and we will be happy to go over them with you.

"ARIZONA'S POWER DISTRIBUTION AND CONTROL SYSTEMS SPECIALISTS" Since 1984

PLEASE NOTE: This quote contains one page. Please be sure you have received one page and return all pages when signing this quotation.

Scope: Build a 50,000 gallon water tank on site in Chino Valley, Az as per engineered drawings provided by Mr. Glen Vortherms. Coat the inside of the tank as per specifications provided by Mr. Vortherms. Paint the exterior to match existing water tanks. All materials, and labor to build this 50,000gal water tank are included in this quote.

Quote Excludes: Tax, permits, engineering, engineered drawings, D.I.P., all excavation, underground obstructions, underground lines including but not limited to, gas, electric, telephone, cable tv, data lines etc. trenching, backfill, compacting, concrete cutting and repair, asphalt cutting and repair, hidden damages.

Total: \$ 93,650.00

Quote amount is in effect for Thirty (30) days from date of Quotation.

Terms: 50% down 30% at 80% complete and balance due at 100 % complete.

PURCHASE AUTHORIZATION: I am duly Authorized by the above named Company to issue to Chapman Electrical, Inc. a written and/or verbal and/or facsimile purchase authorization, via this document and/or other means, for the above described product and/or service purchase. The item(s) and/or services purchased are for the sole benefit of the Company and payment in full to Chapman Electrical, Inc. upon delivery and/or completion per Chapman Electrical, Inc. terms is hereby authorized. I herewith order and authorized the above described material(s) and/or labor purchase.

No work is to be performed or materials ordered until this document is signed and returned or faxed back to Chapman Electrical.

Company

By

Date

Signers Printed Name

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

10

5873

2/9/2015

PAY TO THE ORDER OF Chapman Electric

\$ **34,225.00

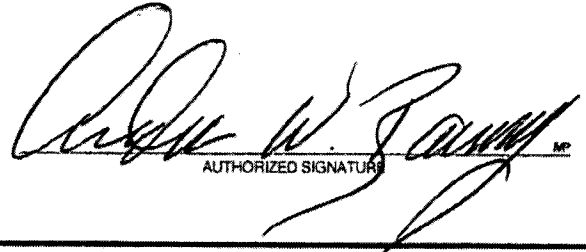
Thirty-Four Thousand Two Hundred Twenty-Five and 00/100*****

DOLLARS

Chapman Electric
6040 N 57th Ave
Glendale, AZ 85301

MEMO

50k Gal Water tank


AUTHORIZED SIGNATURE

Granite Mountain Water Company

5873

Chapman Electric
105.00 · Construction Work in Progress:1 50k Gal Water tank

2/9/2015

34,225.00

National Bank 50k Gal Water tank

34,225.00

Granite Mountain Water Company

5873

Chapman Electric
105.00 · Construction Work in Progress:1 50k Gal Water tank

2/9/2015

34,225.00

National Bank 50k Gal Water tank

34,225.00

CHAPMAN ELECTRICAL CONTRACTING, INC.**Invoice**

P.O. Box 2313
Glendale, AZ 85311

| Date | Invoice # |
|-----------|-----------|
| 2/12/2015 | 32477.1 |

| |
|---|
| Bill To |
| Granite Mountain Water Company, Inc P.O. Box 350 Chino Valley, AZ 86323 |

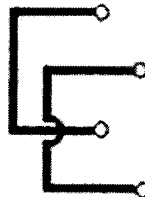
| |
|---|
| Location / Additional Comment |
| Chino Valley Arden Down Payment Billing #1 |

| Terms | Due Date | Project | P.O. No. |
|--------|-----------|-------------------------------|----------|
| Net 30 | 3/14/2015 | 32477 - 50,000 gal Water Tank | |

| Quantity | Item Code | Description | Unit Price | Amount |
|----------|-------------------|--|------------|------------|
| 1 | Straight Time-... | Labor - 35% of down payment | 16,388.75 | 16,388.75 |
| 1 | Job Materials | Materials - 65% of down payment | 30,436.25 | 30,436.25 |
| -1 | Job Materials | Miscellaneous pymt | 12,600.00 | -12,600.00 |
| | | Quote: 93,650.00 (does not incl. tax) | | |
| | | Pd. to date: 34,225.00 | | |

*"Our Business is
Keeping YOU in
Business"*

THANK YOU!



| |
|--------------|
| Phone # |
| 623-937-1629 |

| |
|--------------|
| Fax # |
| 623-937-6396 |

| | |
|-------------------------|-------------------|
| Subtotal | \$34,225.00 |
| Sales Tax (9.2%) | \$2,800.13 |
| Total | \$37,025.13 |
| Payments/Credits | \$-34,225.00 |
| Balance Due | \$2,800.13 |

Granite Mountain Water Company

501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323
www.GraniteMtnWater.com

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221
91-532/1221

5954

4/17/2015

PAY TO THE
ORDER OF

Chapman Electric

\$ **2,800.13

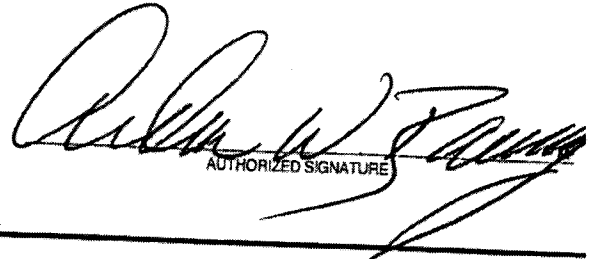
Two Thousand Eight Hundred and 13/100*****

DOLLAR

Chapman Electric
6040 N 57th Ave
Glendale, AZ 85301

MEMO

50k Gal Water tank Sales tax Payable


AUTHORIZED SIGNATURE

Granite Mountain Water Company

Chapman Electric

105.00 · Construction Work in Progress:1 50k Gal Water tank Sales tax Payable

4/17/2015

5954

2,800.13

National Bank

50k Gal Water tank Sales tax Payable

2,800.13

Granite Mountain Water Company

Chapman Electric

105.00 · Construction Work in Progress:1 50k Gal Water tank Sales tax Payable

4/17/2015

5954

2,800.13

National Bank

50k Gal Water tank Sales tax Payable

2,800.13

CHAPMAN ELECTRICAL CONTRACTING, INC.

Invoice

P.O. Box 2313
Glendale, AZ 85311

| Date | Invoice # |
|----------|-----------|
| 6/4/2015 | 32477.2 |

need to pay

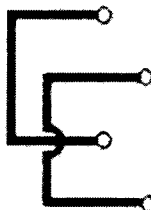
| | |
|---|---------------------------|
| Bill To | Additional Comment |
| Granite Mountain Water Company, Inc P.O. Box 350 Chino Valley, AZ 86323 | |

| Terms | Due Date | Project | P.O. No. |
|--------|----------|-------------------------------|----------|
| Net 30 | 7/4/2015 | 32477 - 50,000 gal Water Tank | |

| Quantity | Item Code | Description | Unit Price | Amount |
|----------|--------------------|---------------------|------------|-----------|
| 1 | Contracting Ite... | Draw on Contract #2 | 18,440.00 | 18,440.00 |
| 1 | Job Materials | Materials | 9,460.00 | 9,460.00T |

*"Our Business is
Keeping YOU in
Business"*

THANK YOU!



| | |
|-------------------------|-------------|
| Subtotal | \$27,900.00 |
| Sales Tax (9.2%) | \$870.32 |
| Total | \$28,770.32 |
| Payments/Credits | \$0.00 |
| Balance Due | \$28,770.32 |

| | |
|----------------|--------------|
| Phone # | Fax # |
| 623-937-1629 | 623-937-6396 |

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

(12) 6056

7/30/2015

PAY TO THE
ORDER OF

Chapman Electric

\$ **28,770.32

Twenty-Eight Thousand Seven Hundred Seventy and 32/100*****

DOLLARS

Chapman Electric
6040 N 57th Ave
Glendale, AZ 85301

MEMO

Draw 2 and Materials

AUTHORIZED SIGNATURE

Granite Mountain Water Company

6056

Chapman Electric
105.00 · Construction Work in Progress:1 Draw 2 and Materials

7/30/2015

28,770.32

National Bank Draw 2 and Materials

28,770.32

Granite Mountain Water Company

6056

Chapman Electric
105.00 · Construction Work in Progress:1 Draw 2 and Materials

7/30/2015

28,770.32

National Bank Draw 2 and Materials

28,770.32

Details on Back. Security Features Included

GRANITE MOUNTAIN WATER COMPANY

Work Performance Contract and Scope of Work

This agreement is made this 28th day of September 2015 by and between Granite Mountain Water Co., 501 N Hwy 89, Chino Valley AZ 86323 and Cashion Tank & Steel CO, 12505 W Buckeye Rd, Cashion AZ 85329.

WITNESSETH

Granite Mountain Water Co does hereby employ Cashion Tank & Steel CO to do all the work and provide all the materials, tools, machinery and supervision necessary for the complete construction of a 55,000 gallon water storage tank in the Prescott AZ area, the total sum of \$38,000 all in accordance with the drawings, and specifications.

Cashion shall commence the work to be performed within 2 days from the date of the Notice to Proceed, and shall complete the work 28 days thereafter, or by 10/27/2015, whichever comes later, time being of the essence of this contract.

The Contractor shall carry liability insurance with the limits of \$100,000 for injury to or death of one person, property damage and Workman's Compensation insurance and shall provide Owner with proof of such insurance.

Hold Harmless

Cashion agrees to defend, indemnify and hold the owner harmless from any liability or claim for damage because of bodily injury, death, property damage, sickness, disease or loss and expense arising from the Contractors' negligence in the performance of the construction Contract. Each Contractor and subcontractor is acting in the capacity of an independent Contractor with respect to the Owner. The Contractor further agrees to protect, defend and indemnify the Owner from any claims by laborers, subcontractors or material men for unpaid work or labor performed or materials supplied in connection with the Construction Contract.

Assignment of Contract

Cashion agrees not to assign the Construction Contract without the written consent of the Granite Mountain Water CO.

Change Orders

Cashion agrees not to make any changes in the schedule of work, design, or of the specifications without written authorization by the Granite Mountain Water CO.

Lien Waivers

The Contractor shall protect, defend and indemnify the Owner from any claims for unpaid work, labor or materials.

General Guarantee

Contractor will furnish Owner with all manufacturer's and supplier's written guarantees and warranties covering materials and equipment furnished under this Contract. Contractor shall guarantee all their work of completing this project.

Permits and Codes

The Owner shall obtain all necessary building permits, including those required by the Yavapai County, and Act 250 as applicable. The Contractor will secure at his/her own expense any other necessary permits and licenses required to do the work and will comply with all building and code regulations and ordinances whether or not covered by the specifications and drawings for the work.

Work Performance

- 1) The Contractor shall protect all work adjacent to the Contract site from any damage resulting from the work of the Contractor and shall repair or replace any damaged work at his/her own expense.
- 2) The Contractor shall replace and put in good condition any existing conditions damaged in carrying out the contract.
- 3) The Contractor shall take all precautions to protect persons from injury and unnecessary interference or inconvenience.
- 4) The Contractor shall conduct his activities in a business like manner and adhere to the reasonable wishes of the Owner in relation to his working schedule.

Condition of Premises

The Contractor agrees to keep the premises clean and orderly and to remove all debris as needed during the hours of work in order to maintain work conditions which do not cause health or safety hazards.

Use of Utilities

The Owner shall permit the Contractor to use, at no cost, power and water necessary to the carrying out and completion of the work.

Use of On Site Loam

Owner Agrees as part of this contract to allow the Contractor use of on-site loam to the degree available as necessary for the completion of the project.

Inspection

The Owner shall have the right to inspect all work performed under this contract. As well it shall be a condition of this contract that all work that needs to be inspected or tested and certified by the engineer as a condition of the Dept. of Environmental Conservation Permit, (or other State agency), or inspected and certified by the local health officer, shall be done at each necessary stage before further construction can continue. All inspection and certification will be done at the Owner's expense. Failure to follow this requirement will be grounds for termination of the contract.

Failure to follow this requirement will be grounds for termination of the contract.

Right to Stop Work

If the Contractor fails to correct defective work or persistently fails to supply materials or equipment in accordance with the Contract Documents, the Owner may order the Contractor to stop the work, or any portion thereof, until the cause for such order has been eliminated.

Payment Schedule

Payments for work shall be as follows:

\$15,000.00 down payment

\$10,000.00 Completion of welding

\$13,000.00 after completion of work

Payments shall be disbursed based on the attached schedule of values. Within three days of notification by the Contractor of each stage of completion, the Owner or its designee will inspect and approve the work, or request any necessary adjustments in the work. The Owner agrees to make payments to the Contractor within ten days of approving work.

Liquidated Damages

Contractor hereby agrees to commence work under this contract within 2 days of the Notice to Proceed and to fully complete the project within 28 days consecutive calendar days thereafter. Contractor further agrees to pay as liquidated damages, the sum of \$500.00 for each consecutive calendar day thereafter. These damages shall not apply, should unforeseeable causes beyond the control and without the fault or negligence of the Contractor cause delays in the completion of this project.

Taxes

The Owner hereby agrees to supply the Contractor with its tax-exempt number for relief from the sales tax on purchase of materials, if applicable.

Arbitration

- 1) All claims, disputes, and other matters in question arising out of, or relating to, the Contract Documents or the breach thereof, except for claims which have been waived by the making and acceptance of final payment, shall be decided by Arbitration in accordance with the construction Industry Arbitration Rules of the American Arbitration Association (or other arbitration rules). This agreement to arbitrate shall be specifically enforceable under the prevailing arbitration law. The award rendered by the arbitrators shall be final, and judgment may be entered upon it in any court having jurisdiction thereof. Any award shall provide for payment within 30 days of the date of the award.
- 2) Notice of the demand for arbitration shall be filed in writing with the other party to the CONTRACT DOCUMENTS and with the ARBITER'S ADDRESS. Demand for arbitration shall in no event be made on any claim, dispute or other matter in question which would be barred by the applicable statute of limitations.
- 3) The Contractor will carry on the work and maintain the progress schedule during any arbitration proceedings, unless otherwise mutually agreed in writing.

Governing Law

Contractor agrees to abide by the following laws and regulation and to make all records, invoices, materials, payrolls, records of personnel, conditions of employment and other documentary data available at any time for the purpose of an audit and to ensure compliance with relevant laws:

- 1) Equal Employment Opportunity: The Contractor shall not discriminate against any employee or applicant for employment on the basis of race, color, sex, religion, or national origin;
- 2) Title AZ of the Civil Rights Act of 1964, as amended;
- 3) The Davis-Bacon Act (Wage Rate Determination attached);
- 4) The Contract Work Hours and Safety Standards Act;
- 5) The National Environmental Policy Act (NEPA);

Conflict of Interest

This Contract shall be construed under the laws of the State of Arizona and may be modified or amended only by a written instrument executed by both the Owner and the Contractor.

IN WITNESS WHEREOF, THE OWNER AND THE CONTRACTOR HAVE EXECUTED THIS CONTRACT AS OF THE DATE FIRST WRITTEN ABOVE.

Cashion Tank & Steel Co.
CONTRACTOR

Daniel Olson
NAME

[Signature]
AUTHORIZED SIGNATURE

9/29/2015
DATE

[Signature]
OWNER

Paul D. Levie
NAME

[Signature]
AUTHORIZED SIGNATURE

9-28-15
DATE

Granite Mountain Water Company
501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

13

6116

9/28/2015

PAY TO THE
ORDER OF Cashion Tank & Steel, Co.

\$ **15,000.00

Fifteen Thousand and 00/100*****

DOLLARS

Cashion Tank & Steel, CO
PO BOX 306
Cashion, AZ 85329

MEMO

Tank #3- First Draw


AUTHORIZED SIGNATURE

Granite Mountain Water Company

6116

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- First Draw

9/28/2015

15,000.00

National Bank Tank #3- First Draw

15,000.00

Granite Mountain Water Company

6116

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- First Draw

9/28/2015

15,000.00

National Bank Tank #3- First Draw

15,000.00

Cashlon Tank & Steel Co.

P O Box 306
12505 West Buckeye Road
Cashlon, AZ 85329
USA

Voice: 623-932-3380

Fax: 623-932-3381

INVOICE

Invoice Number: 20767

Invoice Date: Oct 13, 2015

Page: 1

Duplicate

Granite Mountain Water Co.
P.O.Box 350
Chino Valley, AZ 86323

Granite Mountain Water Co.
P.O.Box 350
Chino Valley, AZ 86323

Granite Mount

C.O.D.

Courier

10/13/15

Complete work on 50,000 gallon water
storage tank 2nd payment due construction
on tank complete

10,000.00

Subtotal

10,000.00

Sales Tax

Total Invoice Amount

10,000.00

Payment/Credit Applied

Check/Credit Memo No:

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

14

6137

10/16/2015

PAY TO THE
ORDER OF Cashion Tank & Steel, Co.

\$ **10,000.00

Ten Thousand and 00/100*****

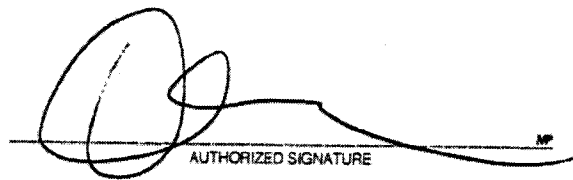
DOLLARS

Cashion Tank & Steel, CO
PO BOX 306
Cashion, AZ 85329

MEMO

Tank #3- 2nd Draw

11


AUTHORIZED SIGNATURE

Granite Mountain Water Company

6137

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- 2nd Draw

10/16/2015

10,000.00

National Bank Tank #3- 2nd Draw

10,000.00

Granite Mountain Water Company

6137

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- 2nd Draw

10/16/2015

10,000.00

National Bank Tank #3- 2nd Draw

10,000.00

CELEBRATING 11 YEARS AS
ARIZONA'S
#1 BANK

Checking Deposit 7659 10/15/15
Amount \$18,925.00
12:54 051 06 6208

Earn Amazing Rewards for you
or your business.
See banker for details.

ALL ITEMS RECEIVED ARE SUBJECT TO CONDITIONS AND TERMS AS STATED ON DEPOSIT TICKETS CURRENTLY ISSUED.
THIS IS YOUR RECEIPT, RETAIN UNTIL YOU HAVE VERIFIED IT WITH YOUR STATEMENT.
MEMBER FDIC

DATE
DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL
LIST CHECKS SEPARATELY OR ATTACH LIST
DOLLARS
CENTS

Granite Mountain Water Co
501 North Highway 89
P.O. Box 350
Chino Valley, AZ 86323

is lost, stolen, or destroyed

- We may not re-issue or refund the funds after the stop payment has
been placed until 90 days after the original check was issued

* Please visit a Chase branch to report a lost, stolen, or destroyed Cashier's Check
or for any other information about this item

FOR YOUR PROTECTION SAVE THIS COPY
CASHIER'S CHECK

Customer Copy
9098614429

10/14/2015
Valid after 7 years

Remitter: CHAPMAN ELECTRICAL CONTRACTING INC

\$** 18,925.00 **

Pay To The Order Of: GRANITE MOUNTAIN WATER CO., INC.

Memo: _____
Note: For information only. Comment has no effect on bank's payment.

Drawer: JPMORGAN CHASE BANK, N.A.
NON NEGOTIABLE

HOLD DOCUMENT UP TO THE LIGHT TO VIEW TRUE WATERMARK

CHASE

CASHIER'S CHECK

HOLD DOCUMENT UP TO THE LIGHT TO VIEW TRUE WATERMARK

Date 10/14/2015 Valid after 7 years

9098614429 91-2
1221

Remitter: CHAPMAN ELECTRICAL CONTRACTING INC

Pay To The Order Of: GRANITE MOUNTAIN WATER CO., INC.

Pay: EIGHTEEN THOUSAND NINE HUNDRED
TWENTY FIVE DOLLARS AND 00 CENTS

\$** 18,925.00 **

Do not write outside this box

Memo: _____
Note: For information only. Comment has no effect on bank's payment.

Drawer: JPMORGAN CHASE BANK, N.A.

Brian Dean
Senior Vice President
JPMorgan Chase Bank, N.A.
Phoenix, AZ





**Dana Kepner Company, Inc.
Western Industrial Supply, LLC**

INVOICE

*** DUPLICATE ***

| UPC/VENDOR | INVOICE DATE | ORDER NO. |
|-------------------|--------------|------------|
| 000000 | 10/06/15 | 4335586-00 |
| P.O. NO. | | PAGE # |
| WATERLINE / JASON | | 1 |

CUST.#: 26840000

SHIP TO: GRANITE MOUNTAIN WATER COMPANY
P.O. BOX 350

CHINO VALLEY, AZ 86323

REMIT TO: Dana Kepner Company, Inc.
PO Box 710281
Denver, CO 80271-0281

BILL TO: GRANITE MOUNTAIN WATER COMPANY
P.O. BOX 350

CHINO VALLEY, AZ 86323

| INSTRUCTIONS | | TERMS | |
|--------------|--|-------------|----------|
| XM | | Net 30 Days | |
| SHIP POINT | | SHIP VIA | SHIPPED |
| | | DELIVERY | 10/06/15 |

| LINE NO. | PRODUCT AND DESCRIPTION | QUANTITY ORDERED | QUANTITY B.O. | QTY. SHIPPED | QTY. U/M | UNIT PRICE | AMOUNT (NET) |
|--|---|------------------|---------------|--------------|----------|------------|--------------|
| ALL ORDERS NEED TO BE CONFIRMED OR PLACED BY ARDEN BEFORE ORDERING | | | | | | | |
| 1 | 0306350 6"X18'1-1/2" PC350 DI P TYTON JOINT, CMNT LINED DUCTILE IRON PIPE-ANSI A21.51 | 2 | 0 | 2 | PCS | 13.87 /ft | 502.79 |
| 2 | 43DL06FML 6" MJ X FLG RW DI OL VALVE, LESS ACCS | 1 | 0 | 1 | PCS | 622.96 PCS | 622.96 |
| 3 | 43DL04FML 4" MJXFLG RW DI OL VALVE LESS ACCS | 1 | 0 | 1 | PCS | 466.25 PCS | 466.25 |
| 4 | 18L0622DOM 6" DOMESTIC MJ 22-1/2 BEND, CL,SSB,DI, LESS ACCS. | 1 | 0 | 1 | PCS | 102.46 PCS | 102.46 |
| 5 | 18L0645DOM 6" DOMESTIC MJ 45 BEND, CL,SSB,DI, LESS ACCS. | 1 | 0 | 1 | PCS | 112.79 PCS | 112.79 |
| 6 | 86FTGR048 4" FLANGE-TYTE RING GASKET, 1/8" | 1 | 0 | 1 | PCS | 13.43 PCS | 13.43 |
| 7 | 867302 4" BOLT PACK CONSISTING OF 8 PLATED BOLTS & NUTS 5/8X3" | 1 | 0 | 1 | PCS | 7.34 PCS | 7.34 |
| 8 | 86FTGR068 6" FLANGE-TYTE RING GASKET, 1/8" | 2 | 0 | 2 | PCS | 18.47 PCS | 36.94 |
| 9 | 867304 6"-8" BOLT PACK CONSISTING OF 8 PLATED BOLTS & NUTS 3/4"X3-1/2" | 2 | 0 | 2 | PCS | 11.57 PCS | 23.14 |
| 10 | 18A04DOM 4" DOMESTIC MJ COMPACT ACCESSORY PACK W/GLAND | 1 | 0 | 1 | each | 22.56 each | 22.56 |
| 11 | 18A06DOM 6" DOMESTIC MJ COMPACT ACCESSORY PACK S/GLAND | 6 | 0 | 6 | each | 27.26 each | 163.56 |
| 12 | 97APS1836 18"-36" ADJUSTABLE PIPE STAND ADJUSTABLE 18"-36" | 3 | 0 | 3 | each | 62.93 each | 188.79 |

Continued

Dana Kepner Co.,Inc./Western Industrial Supply, LLC. standard terms and conditions apply. All returns must be approved and in full saleable condition. Returns will be subject to a restocking charge. Service charges will be applied to invoices that are not paid within terms.

16



Dana Kepner Company, Inc.
Western Industrial Supply, LLC

INVOICE

*** DUPLICATE ***

| UPC VENDOR | INVOICE DATE | ORDER NO. |
|-------------------|--------------|------------|
| 000000 | 10/06/15 | 4335586-00 |
| P.O. NO. | | PAGE # |
| WATERLINE / JASON | | 2 |

CUST.#: 26840000

SHIP TO: GRANITE MOUNTAIN WATER COMPANY
P.O. BOX 350

CHINO VALLEY, AZ 86323

REMIT TO: Dana Kepner Company, Inc.
PO Box 710281
Denver, CO 80271-0281

BILL TO: GRANITE MOUNTAIN WATER COMPANY
P.O. BOX 350

CHINO VALLEY, AZ 86323

| INSTRUCTIONS | | TERMS |
|--------------|----------|-------------|
| XM | | Net 30 Days |
| SHIP POINT | SHIP VIA | SHIPPED |
| | DELIVERY | 10/06/15 |

| LINE NO. | PRODUCT AND DESCRIPTION | QUANTITY ORDERED | QUANTITY B.O. | QTY. SHIPPED | QTY. U/M | UNIT PRICE | AMOUNT (NET) |
|----------|--|-------------------|---------------|--------------|------------------------|------------|--------------------|
| 13 | 18L06AMFDM 6" DOMESTIC MJXFLG ADAPTOR, CL.SSB,DI, LESS ACCS. | 1 | 1 | 0 | PCS | 109.03 PCS | 0.00 |
| 13 | Lines Total | Qty Shipped Total | | 22 | Total Invoice Total | | 2263.01 2263.01 |

Last Page

Dana Kepner Co.,Inc./Western Industrial Supply, LLC. standard terms and conditions apply. All returns must be approved and in full saleable condition. Returns will be subject to a restocking charge. Service charges will be applied to invoices that are not paid within terms.

16

10/26/2015

Dana Kepner Company Inc

**2,263.01

Two Thousand Two Hundred Sixty-Three and 01/100*****

Dana Kepner Company Inc
PO Box 710281
Denver, CO 80271-0281

Customer # 26840000-

Dana Kepner Company Inc
105.00 · Construction Work in Progress:1 Customer # 26840000- See invoice

10/26/2015

2,263.01

National Bank Customer # 26840000-

2,263.01

Dana Kepner Company Inc
105.00 · Construction Work in Progress:1 Customer # 26840000- See invoice

10/26/2015

2,263.01

National Bank Customer # 26840000-

2,263.01

17

Cashion Tank & Steel Co.

P O Box 306
12505 West Buckeye Road
Cashion, AZ 85329
USA

Voice: 623-932-3380
Fax: 623-932-3381

INVOICE

Invoice Number: 20773
Invoice Date: Oct 26, 2015
Page: 1

Granite Mountain Water Co.
P.O.Box 350
Chino Valley, AZ 86323

Granite Mountain Water Co.
P.O.Box 350
Chino Valley, AZ 86323

Granite Mount

C.O.D.

Courier

10/26/15

Work complete on 50,000 gallon water
storage tank
9/28/15 CK#6118
10/16/15 Ck# 6137

38,000.00

-15,000.00

-10,000.00

Subtotal

13,000.00

Sales Tax

Total Invoice Amount

13,000.00

Payment/Credit Applied

Check/Credit Memo No:

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

17

6151

11/2/2015

PAY TO THE
ORDER OF Cashion Tank & Steel, Co.

\$ **13,000.00

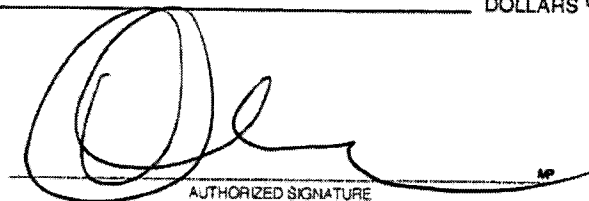
Thirteen Thousand and 00/100*****

DOLLARS

Cashion Tank & Steel, CO
PO BOX 306
Cashion, AZ 85329

MEMO

Tank #3- Last Draw


AUTHORIZED SIGNATURE

Granite Mountain Water Company

6151

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- Last Draw

11/2/2015

13,000.00

National Bank Tank #3- Last Draw

13,000.00

Granite Mountain Water Company

6151

Cashion Tank & Steel, Co.
105.00 · Construction Work in Progress:1 Tank #3- Last Draw

11/2/2015

13,000.00

National Bank Tank #3- Last Draw

13,000.00

Details on Back. Security Features Included

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

19

6172

11/11/2015

PAY TO THE
ORDER OF

Chino Ship & Copy

\$ **30.90

Thirty and 90/100*****

DOLLARS

Chino Ship & Copy

MEMO

Signage for Construction of tank per WIFA



AUTHORIZED SIGNATURE

Granite Mountain Water Company

6172

Chino Ship & Copy

11/11/2015

105.00 · Construction Work in Progress:1 Signage for Construction of tank per WIFA

30.90

National Bank

Signage for Construction of tank per WIFA

30.90

Granite Mountain Water Company

6172

Chino Ship & Copy

11/11/2015

105.00 · Construction Work in Progress:1 Signage for Construction of tank per WIFA

30.90

National Bank

Signage for Construction of tank per WIFA

30.90

Details on Back

Security Features Included

IONS (cont.)

Location/Description
 THE HOME DEPOT PRESCOTT AZ
 PAINT HARDWARE SEASONAL/GARDEN
 THE HOME DEPOT PRESCOTT AZ
 SEASONAL/GARDEN PLUMBING
 THE HOME DEPOT PHOENIX AZ
 BUILDING MATERIALS

Reference #

Invoice #

Amount

\$ 37.07

\$ 46.33

\$ 147.08

10/24

PAYMENTS, CREDITS, FEES AND ADJUSTMENTS

10/22 PAYMENT - THANK YOU

P91940097EHM7YSHL

\$ 71.89

10/30 LATE FEE

\$ 35.00

10/30 FINANCE CHARGE

\$ 36.05

FINANCE CHARGE SUMMARY

| Type of Balance | Annual Percentage Rate (APR) | Daily Periodic Rate | Balance Subject to Finance Charge | Finance Charge |
|-------------------------------|------------------------------|---------------------|-----------------------------------|----------------|
| PURCHASES | | | | |
| REGULAR REVOLVING CREDIT PLAN | 21.99% | 0.06024% | \$1,930.87 | \$36.05 |

Your Annual Percentage Rate (APR) is the annual interest rate on your account.



ToolRental
 20TH ANNIVERSARY

EXPERIENCE. RELIABILITY. SAVINGS.

- ✓ Hundreds of name brand rentals at competitive prices
- ✓ Dependable tools and world class service
- ✓ Used equipment availability now visible online at homedepot.com/usedtools

Visit homedepot.com/rentals for the location nearest you.

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SEAL FASTER AND EASIER

The GREAT STUFF PRO™ Insulating Foam Sealant Series features the Pro 14 Dispensing Gun, designed specifically for the Contractor. The system is no drip, offers maximum control, and is restartable. Easy and effective, use the GREAT STUFF PRO™ system for all of your air sealing needs.

Ask for GREAT STUFF PRO™ Series products at your local Pro Desk or visit homedepot.com/GREATSTUFFPRO today.

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19

2000-0001 234



Tank #3

20



More savi
More doir

1941 EAST HIGHWAY 69
PRESCOTT, AZ 86301 (928)771-8467

0452 00026 00336 10/22/15 11:00
CASHIER MARK - MTH0787

020066776282 SRSTSNRSDSP <A>
STOPS RUST SUNRISE RED SPRAY
203.76 7.52
008925127079 4.5"FW 60G <A> 7.97
DIABLO 4-1/2" 60G STL DEMON CONICAL
731919245052 GMPNGLV50FA <A> 5.97
GMPC NITRILE DISPOSABLE GLOVE 50CT
008925094524 4.5" MTL CUT <A>
DIABLO 4-1/2"X7/8" METAL CUTOFF BLDE
202.97 5.94
008925094708 14" MTL CUT <A> 6.97
DIABLO 14" X 1/8" X 1" METAL CUTOFF

| | |
|-----------------------------|---------|
| SUBTOTAL | 34.31 |
| SALES TAX | 2.70 |
| TOTAL | \$37.07 |
| XXXXXXXXXXXX6313 HOME DEPOT | 37.07 |
| AUTH CODE 022385/9260868 | TA |

P.O.#/JOB NAME: TANK 3

CUSTOMER PRO XTRA ID ###-###-7669
MEMBERSHIP LEVEL: Pro Xtra Paint Rewards

| | |
|-----------------------------|-----------|
| Pro Xtra Paint 2015 Savings | \$ 0.00 |
| Total qualifying spend | \$ 0.00 |
| Addl spend for next level | \$2000.00 |

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

19

6176

11/13/2015

TO THE
DER OF Home Depot

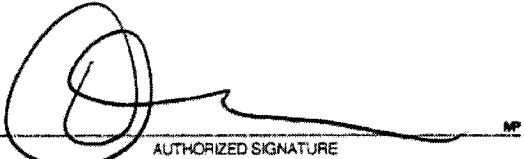
\$ **81.17

Eighty-One and 17/100***** DOLLARS

Home Depot Credit Services
PO Box 6029
The Lakes, NV 88901-6029

EMO

Acct # 6035 3220 1480 6313


AUTHORIZED SIGNATURE

Granite Mountain Water Company

6176

Home Depot

11/13/2015

105.00 · Construction Work in Progress:1 Paint for tankl # 3 etc.
105.00 · Construction Work in Progress:1 Materials and supplies see invoice

37.07
44.10

National Bank Acct # 6035 3220 1480 6313

81.17

Granite Mountain Water Company

6176

Home Depot

11/13/2015

105.00 · Construction Work in Progress:1 Paint for tankl # 3 etc.
105.00 · Construction Work in Progress:1 Materials and supplies see invoice

37.07
44.10

National Bank Acct # 6035 3220 1480 6313

81.17

Details on Back
Security Features Included

JOHN DEERE FINANCIAL

For customer inquiries contact us at:
1-800-356-9033 or visit us online
www.MyJDFAccount.com

CHINO MEADOWS 2 WATER CO
PO BOX 350
CHINO VALLEY AZ 86323-0350
PHONE: 928-717-2616

Page 1 of 3

20

| STATEMENT PERIOD | BEGIN DATE | CLOSING DATE | MULTI-USE ACCOUNT NUMBER | 28111-29301 |
|-----------------------|------------|--------------|--------------------------|-------------|
| DAYS IN BILLING CYCLE | 10/02/15 | 11/01/15 | COMMERCIAL PREFERRED | |
| PREVIOUS BALANCE | 31 | | REGULAR LIMIT | 8,000 |
| PURCHASES/DEBITS | | 73.76 | REGULAR AVAILABLE LIMIT | 7,891 |
| FEES CHARGED | | 125.41 | | |
| INTEREST CHARGED | | 0.00 | | |
| PAYMENTS | | 0.00 | | |
| CREDITS | | 90.07 CR | | |
| NEW BALANCE | | 0.00 | | |
| | | 109.10 | | |
| MINIMUM PAYMENT DUE | | 25.00 | | |
| PAYMENT DUE DATE | | 11/21/15 | | |

To avoid additional interest charges, pay \$109.10 by the Payment Due Date of: 11/21/2015.

TRANSACTIONS POSTED TO YOUR ACCOUNT

| Tran. Date | Date Posted | Invoice # / Reference | Description | Transaction Amount |
|------------|-------------|-----------------------|------------------|--------------------|
| | | | PREVIOUS BALANCE | 73.76 |

ARIZONA GENERAL ACE HARDWARE CHINO VALLEY AZ 928-636-4401
10/05/15 10/05/15 D27491

PURCHASE
GENERAL SUPPLIES
PO# SHOP

| Quantity | Unit Price |
|----------|------------|
| 0 | 0 |
| 1.00 EA | 19.99 EA |
| 1.00 EA | 13.99 EA |
| 1.00 EA | 0.79 EA |
| 1.00 EA | 0.79 EA |
| 4.00 FT | 0.23 FT |

| Item Total | Invoice Item Description |
|------------|------------------------------|
| 0.00 | Authorized Buyer DENNY LOPEZ |
| 19.99 | GARDEN HOSE 5/8"75' |
| 13.99 | POLY IMPULSE ON POLY SLE |
| 0.79 | ADAPTR SCH40PVC 1/2SXFT |
| 0.79 | ADAPTR SCH40PVC1/2"MPTXS |
| 0.92 | 1/2" PVC SCH 40 PIPE 20' |
| 3.51 | Tax |

Sheep tank #3 fire control

37.44

continued ...

▼ Detach and return the bottom remittance portion with your payment in the enclosed envelope. Please write in black or blue ink. ▼



PO BOX 5328, MADISON WI 53705-0328

You can Make-A-Payment at www.MyJDFAccount.com
or call us at 1-800-356-9033.

MULTI-USE ACCOUNT NUMBER 28111-29301
New Balance 109.10
Minimum Payment Due 25.00
Payment Due Date 11/21/15

Amount
Enclosed

\$

Please note Address/Phone corrections on reverse side.

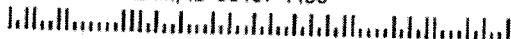
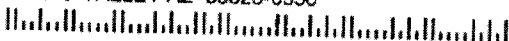
Make check payable to John Deere Financial at the address below.

JOHN DEERE FINANCIAL

P.O. BOX 4450

CAROL STREAM, IL 60197-4450

1207024608/004816 123 003 GXH-FVK rag02FP 126
CHINO MEADOWS 2 WATER CO
PO BOX 350
CHINO VALLEY AZ 86323-0350



20 00000000002811129301 0000002500 0000010910 9



Arizona General / Ace Hardware, Inc.
P.O. Box 1170
Chino Valley, AZ 86323
Phone: 928-636-4401

*Bank #5
Dmcc*

PAGE NO 1

| | | | | | | | |
|--------------|---------|--------------------|-----------|--------------------|-------|----------|------|
| Customer No. | Job No. | Purchase Order No. | Reference | Terms | Clerk | Date | Time |
| 261800 | | SHOP | PO # SHOP | FARM PLAN CUSTOMER | GENE | 10/ 5/15 | 1:49 |

Sold To
CHINO MEADOWS #2 WATER COMPANY
P.O. BOX 350
501 N HWY 89
CHINO VALLEY AZ 86323

Ship To

TAX : 001 ARIZONA GENERAL SALES

TERM#561
DOC# D27491

* INVOICE *

| SHIPPED | ORDERED | UM | SKU | DESCRIPTION | SUGG | UNITS | PRICE/PER | EXTENSION |
|---------|---------|----|---------|--------------------------|-------|-------|-----------|-----------|
| 1 | | EA | 73215 | GARDEN HOSE 5/8"75' | 19.99 | 1 | 19.99 /EA | 19.99 |
| 1 | | EA | 70692 | POLY IMPULSE ON POLY SLE | 13.99 | 1 | 13.99 /EA | 13.99 |
| 1 | | EA | 20-1404 | ADAPTR SCH40PVC 1/2SXFT | .79 | 1 | .79 /EA | .79 |
| 1 | | EA | 20-1304 | ADAPTR SCH40PVC1/2"MPXTS | .79 | 1 | .79 /EA | .79 |
| 4 | | FT | .5PVC | 1/2" PVC SCH 40 PIPE 20' | .23 | 4 | .23 /FT | .92 |

** PAYMENT RECEIVED **
** PAID IN FULL **
(DENNY LOPEZ)

BANKCARD PAYMENT
BKCRD#XXXXXXXX9301

| | | |
|-------|--------------|-------|
| 37.44 | TAXABLE | 36.48 |
| | NON-TAXABLE | 0.00 |
| | SUBTOTAL | 36.48 |
| | TD DISCOUNT | -2.55 |
| 37.44 | TAX AMOUNT | 3.51 |
| | TOTAL AMOUNT | 37.44 |

[Signature]
Received By

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-632/1221

(20) 6177

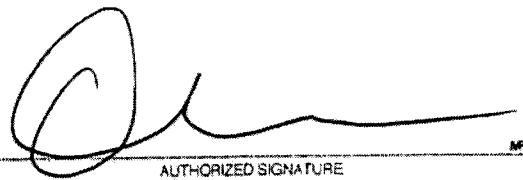
11/13/2015

TO THE
DER OF John Deere Financial

\$ **37.44

Thirty-Seven and 44/100***** DOLLARS

John Deere Financial
PO Box 4450
Carol Stream, IL 60197-4450


AUTHORIZED SIGNATURE

EMO

Account # 28111-29301

Granite Mountain Water Company

6177

John Deere Financial
105.00 · Construction Work in Progress:1 Fire Control Materials and supplies

11/13/2015

37.44

National Bank Account # 28111-29301

37.44

Granite Mountain Water Company

6177

John Deere Financial
105.00 · Construction Work in Progress:1 Fire Control Materials and supplies

11/13/2015

37.44

National Bank Account # 28111-29301

37.44

Details on Back. Security Features Included

21

Invoice

| Date | Invoice # |
|-----------|-----------|
| 11/1/2015 | 164 |

| | |
|----------|------------|
| Due Date | 11/30/2015 |
|----------|------------|

Bill To
Granite Mountain Water
Jason Pudney
P.O. Box 350
Chino Valley, Az 86323

| Services for: | October | Project | | |
|--|---------|----------------|------------|--|
| Description | Hrs. | Rate | Amount | |
| Granite Mountain Water Tank #3: Site Visits. Review WIFA contract documents. Certify WIFA documents pertaining project. Prepare and Certify project as-built. Prepare and submit COC to ADEQ. | 36 | 95.00 | 3,420.00 | |
| | | Total | \$3,420.00 | |

Granite Mountain Water Company

501 North Highway 89
Chino Valley, AZ 86323
www.GraniteMtnWater.com
928-717-2619

National Bank of Arizona
1299 North Highway 89
Chino Valley, AZ 86323
91-532/1221

21

6182

11/18/2015

PAY TO THE
ORDER OF

Vortherms Consulting, LLC

\$ **3,420.00

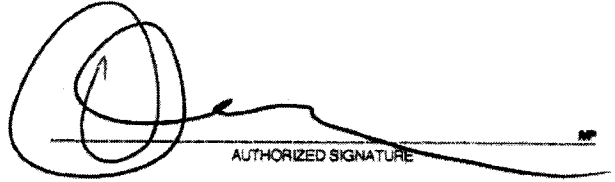
Three Thousand Four Hundred Twenty and 00/100*****

DOLLARS

Vortherms Consulting, LLC
11735 W Daley Lane
Sun City, AZ 85373

MEMO

Water Tank #3


AUTHORIZED SIGNATURE

Details on Back.
Security Features Included

Granite Mountain Water Company

6182

Vortherms Consulting, LLC

11/18/2015

105.00 · Construction Work in Progress:1 Review WIFA Docs, Certify Documents, Prapere and

3,420.00

National Bank

Water Tank #3

3,420.00

Granite Mountain Water Company

6182

Vortherms Consulting, LLC

11/18/2015

105.00 · Construction Work in Progress:1 Review WIFA Docs, Certify Documents, Prapere and

3,420.00

National Bank

Water Tank #3

3,420.00

Granite Mountain Water Company, Inc.
Docket No. W-02467A-14-0230
Supplemental Direct Testimony of Ray L. Jones

Exhibit C

Supplemental Schedules

| Line No. | | OCRB |
|-------------|-----------------------------------|------------|
| 1 | Adjusted Rate Base | \$ 586,318 |
| 2 | | |
| 3 | Adjusted Operating Income | (2,740) |
| 4 | | |
| 5 | Current Rate of Return | -0.47% |
| 6 | | |
| 7 | Required Rate of Return | 8.03% |
| 8 | | |
| 9 | Required Operating Income | \$ 47,087 |
| 10 | | |
| 11 | Operating Income Deficiency | \$ 49,828 |
| 12 | | |
| 13 | Gross Revenue Conversion Factor | 1.2090 |
| 14 | | |
| 15 | Increase in Gross Revenue | \$ 60,243 |
| 16 | | |
| 17 | Adjusted Test Year Revenue | \$ 117,320 |
| 18 | | |
| 19 | Proposed Annual Revenue | \$ 177,563 |
| 20 | | |
| 21 | Percent Increase in Gross Revenue | 51.35% |
| 22 | | |
| 23 | | |

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Summary of Original Cost Rate Base Elements

Schedule RLJ-2
Supplemental
Page 1

| Line No. | | Original Cost Rate Base* |
|-------------|--|--------------------------------|
| 1 | | |
| 2 | Gross Utility Plant in Service | \$ 1,118,519 |
| 3 | | |
| 4 | Less: Accumulated Depreciation | <u>(533,361)</u> |
| 5 | | |
| 6 | Net Utility Plant in Service | 585,157 |
| 7 | | |
| 8 | Less: | |
| 9 | Advances in Aid of Construction | 6,021 |
| 10 | | |
| 11 | Contributions in Aid of Construction | - |
| 12 | Accumulated Amortization of CIAC | - |
| 13 | Contributions in Aid of Construction - Net | <u>-</u> |
| 14 | | |
| 15 | Customer Security Deposits | 750 |
| 16 | Deferred Income Taxes | - |
| 17 | | |
| 18 | Plus: | |
| 19 | Working Capital | 7,932 |
| 20 | Net Regulatory Asset / (Liability) | - |
| 21 | | |
| 22 | Rate Base | <u>\$ 586,318</u> |
| 23 | | |
| 24 | * including pro forma adjustments | |
| 25 | | |

| Line No. | Actual End of Test Year | ADJ OC-1 | ADJ OC-2 | ADJ OC-3 NOT USED | ADJ OC-4 | Rebuttal & Supplemental Adjustments | Total Pro Forma Adjustments | Adjusted End of Test Year |
|-------------|-------------------------------|-------------|-------------|-------------------------|-------------|---|-----------------------------------|---------------------------------|
| 1 | | | | | | | | |
| 2 | \$ 846,548 | \$ 248,893 | | | | \$ 23,078 | \$ 271,970 | \$ 1,118,519 |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | (556,045) | | 23,553 | | | (870) | 22,683 | (533,361) |
| 6 | 290,504 | 248,893 | 23,553 | | | 22,208 | 294,654 | 585,157 |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
| 9 | 8,256 | | | | | (2,235) | (2,235) | 6,021 |
| 10 | | | | | | | | |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | 70 | | | | | | 680 | 750 |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | 10,662 | | | | | (2,730) | (2,730) | 7,932 |
| 20 | | | | | | | | |
| 21 | | | | | | | | |
| 22 | \$ 292,840 | \$ 248,893 | \$ 23,553 | \$ - | \$ (680) | \$ 21,712 | \$ 293,478 | \$ 586,318 |
| 23 | | | | | | | | |
| 24 | | | | | | | | |
| 25 | | | | | | | | |
| 26 | | | | | | | | |
| 27 | | | | | | | | |

Book Adjustments - (Included on Schedule B.2.1)

| Rate Making Adjustments | | | | | | | | | | | | | | | |
|-------------------------|--|--------------------------------------|-------------------------|-------------------------------------|----------------|-----------------------------|------------------------------|---|-----------------------------------|------------------------------|--------------------------------------|---------------------------------|-----------------|---------------------------|-----------------------------------|
| Line No. | Acct No. | Description | Actual End of Test Year | Direct Filing | | | Rebuttal | | Direct [1.5] Post Test Year Plant | Supplemental | | | | Adjusted End of Test Year | |
| | | | | [1.1] Conform to Decision No. 71869 | [1.2] NOT USED | [1.3] Reclass Plant Entries | [1.4] Staff Adjustment No. 2 | Adjusted Book End of Test Year ¹ | | [1.6] Staff Adjustment No. 1 | [1.7] Company Differences From Staff | PTY Plant Related to Well No. 6 | PTY Plant No. 3 | | PTY Plant ² Well No. 4 |
| 4 | 301 | Organization Cost | \$ 110 | \$ - | - | - | - | \$ 110 | - | - | - | - | - | \$ 110 | |
| 5 | 302 | Franchise Cost | - | - | - | - | - | - | - | - | - | - | - | - | |
| 6 | 303 | Land and Land Rights | - | - | - | - | - | - | - | - | - | - | - | - | |
| 7 | 304 | Structures & Improvements | 21,608 | - | - | - | 36,913 | 58,521 | - | - | 14,700 | 33,800 | 48,500 | 48,500 | |
| 8 | 305 | Collecting & Impounding Reservoirs | - | - | - | - | - | - | - | - | 9,605 | 11,768 | 21,373 | 79,894 | |
| 9 | 306 | Lake, River, Canal Intakes | - | - | - | - | - | - | - | - | - | - | - | - | |
| 10 | 307 | Wells & Springs | 38,472 | - | - | - | 539 | 39,011 | 75,000 | - | (53,065) | - | 21,935 | 60,946 | |
| 11 | 308 | Infiltration Galleries | - | - | - | - | - | - | - | - | - | - | - | - | |
| 12 | 309 | Raw Water Supply Mains | - | - | - | - | - | - | - | - | - | - | - | - | |
| 13 | 310 | Power Generation Equipment | 10,406 | - | - | (10,406) | - | 912 | - | - | - | - | - | 912 | |
| 14 | 311 | Pumping Equipment | 94,776 | - | - | 10,406 | (912) | 104,270 | - | - | 17,637 | - | 12,868 | 121,906 | |
| 15 | 320 | Water Treatment Equipment | - | - | - | 1,661 | (1,661) | - | - | - | - | - | - | - | |
| 16 | 320.1 | Water Treatment Plants | - | - | - | - | - | - | - | - | - | - | - | - | |
| 17 | 320.2 | Solution Chemical Feeders | 2,077 | - | - | (1,661) | 1,661 | 2,077 | - | - | 5,669 | - | 5,669 | 7,745 | |
| 18 | 330 | Distribution Reservoirs & Standpipes | 7,775 | - | - | - | (7,775) | - | 144,000 | - | (41,777) | - | - | - | |
| 19 | 330.1 | Storage Tanks | 106,705 | - | - | - | (36,288) | 70,417 | - | - | - | - | - | 172,640 | |
| 20 | 330.2 | Pressure Tanks | 55,213 | - | - | - | - | 55,213 | - | - | - | - | - | 55,213 | |
| 21 | 331 | Transmission & Distribution Mains | 415,165 | - | - | - | - | 415,165 | 30,000 | - | 4,869 | - | 34,869 | 450,034 | |
| 22 | 333 | Services | 55,853 | - | - | - | - | 55,853 | - | - | 81 | - | 81 | 55,934 | |
| 23 | 334 | Meters | 6,760 | (107) | - | - | - | 6,652 | - | - | - | - | - | 6,652 | |
| 24 | 335 | Hydrants | 8,774 | - | - | - | - | 8,774 | - | - | - | - | - | 8,774 | |
| 25 | 336 | Backflow Prevention Devices | 1,027 | - | - | - | - | 1,027 | - | - | 402 | - | 402 | 1,428 | |
| 26 | 339 | Other Plant & Misc Equipment | 4,850 | - | - | - | - | 4,850 | - | - | - | - | - | 4,850 | |
| 27 | 340 | Office Furniture & Equipment | - | - | - | - | - | - | - | - | - | - | - | - | |
| 28 | 340.1 | Computers & Software | - | - | - | - | - | - | - | - | - | - | - | - | |
| 29 | 341 | Transportation Equipment | 7,456 | - | - | 3,500 | - | 3,500 | - | - | - | - | - | 3,500 | |
| 30 | 342 | Stores Equipment | - | - | - | - | 19,000 | 26,456 | - | - | - | - | - | 26,456 | |
| 31 | 343 | Tools, Shop & Garage Equipment | 149 | - | - | - | (149) | - | - | - | - | - | - | - | |
| 32 | 344 | Laboratory Equipment | - | - | - | - | - | - | - | - | - | - | - | - | |
| 33 | 345 | Power Operated Equipment | 5,000 | - | - | - | - | 5,000 | - | - | - | - | - | 5,000 | |
| 34 | 346 | Communication Equipment | 4,353 | - | - | (3,500) | 7,150 | 8,003 | - | - | - | - | - | 8,003 | |
| 35 | 347 | Miscellaneous Equipment | - | - | - | - | - | - | - | - | - | - | - | - | |
| 36 | 348 | Other Tangible Plant | 20 | - | - | - | - | 20 | - | - | - | - | - | - | |
| 37 | TOTALS | | \$ 846,548 | \$ (107) | \$ - | \$ - | \$ 19,390 | \$ 865,831 | \$ 249,000 | \$ (41,880) | \$ 45,568 | \$ 102,223 | \$ 145,697 | \$ 4,769 | \$ 1,118,519 |
| 38 | Equity Adjustments (Attachment 3, pg 21) | | | | | | | | | | | | | | |
| 39 | Plant In Service per Books | | | | | | | | | | | | | | |
| 40 | Increase / (Decrease) in Plant in Service | | | | | | | | | | | | | | |
| 41 | | | | | | | | | | | | | | | |
| 42 | | | | | | | | | | | | | | | |
| 43 | ¹ Adjusted plant in service balance including all book adjustments. | | | | | | | | | | | | | | |
| 44 | ² Net of retirement: \$9,448.82 new pump - \$4,680.00 retirement of old pump = net plant increase of \$4,768.82 | | | | | | | | | | | | | | |
| 45 | | | | | | | | | | | | | | | |
| 46 | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | Total Equity Adj. | |
| | | | | | | | | | | | | | | \$ (107) | |

Accumulated Depreciation

| Accumulated Depreciation | | | | | | | | | | | | | |
|---|-------|-----|---|-------------------------|---------------------------------|---------------------------------------|----------------|----------------|--------------------------------|----------------------------|----------------|----------------|---------------------------|
| Book Adjustments - (Included on Schedule B.2.1) | | | | | | | | | | | | | |
| Updated for Rebuttal Filing | | | | | | | | | | | | | |
| Rate Making Adjustments | | | | | | | | | | | | | |
| Rebuttal | | | | | | | | | | | | | |
| [2.5] | | | | | | | | | | | | | |
| PTY | | | | | | | | | | | | | |
| Plant | | | | | | | | | | | | | |
| Well No. 4 | | | | | | | | | | | | | |
| [2.6] | | | | | | | | | | | | | |
| NOT USED | | | | | | | | | | | | | |
| [2.7] | | | | | | | | | | | | | |
| NOT USED | | | | | | | | | | | | | |
| Adjusted End of Test Year | | | | | | | | | | | | | |
| Adjusted End of Test Year | | | | | | | | | | | | | |
| 20 | | | | | | | | | | | | | |
| Total Equity Adj. | | | | | | | | | | | | | |
| 22,683 | | | | | | | | | | | | | |
| Line | Acct | No. | Description | Actual End of Test Year | [2.1] Unbooked Plant Retirement | [2.2] Difference From Calc'd on B-2.1 | [2.3] NOT USED | [2.4] NOT USED | Adjusted Book End of Test Year | [2.5] PTY Plant Well No. 4 | [2.6] NOT USED | [2.7] NOT USED | Adjusted End of Test Year |
| 4 | 301 | | Organization Cost | | - | - | - | - | - | - | - | - | \$ |
| 5 | 302 | | Franchise Cost | | - | - | - | - | - | - | - | - | - |
| 6 | 303 | | Land and Land Rights | | - | - | - | - | - | - | - | - | - |
| 7 | 304 | | Structures & Improvements | | 20,635 | 20,635 | - | - | 20,635 | - | - | - | 20,635 |
| 8 | 305 | | Collecting & Impounding Reservoirs | | - | - | - | - | - | - | - | - | - |
| 9 | 306 | | Lake, River, Canal Intakes | | - | - | - | - | - | - | - | - | - |
| 10 | 307 | | Wells & Springs | | 26,900 | 26,900 | - | - | 26,900 | - | - | - | 26,900 |
| 11 | 308 | | Infiltration Galleries | | - | - | - | - | - | - | - | - | - |
| 12 | 309 | | Raw Water Supply Mains | | - | - | - | - | - | - | - | - | - |
| 13 | 310 | | Power Generation Equipment | | 114 | 114 | - | - | 114 | - | - | - | 114 |
| 14 | 311 | | Pumping Equipment | | 104,270 | 104,270 | - | - | 104,270 | (4,680) | - | - | 99,590 |
| 15 | 320 | | Water Treatment Equipment | | - | - | - | - | - | - | - | - | - |
| 16 | 320 | | Water Treatment Plants | | - | - | - | - | - | - | - | - | - |
| 17 | 320 | | Solution Chemical Feeders | | 2,077 | 2,077 | - | - | 2,077 | - | - | - | 2,077 |
| 18 | 330 | | Distribution Reservoirs & Standpipes | | - | - | - | - | - | - | - | - | - |
| 19 | 330.1 | | Storage Tanks | | - | - | - | - | - | - | - | - | - |
| 20 | 330.2 | | Pressure Tanks | | 10,697 | 10,697 | - | - | 10,697 | - | - | - | 10,697 |
| 21 | 331 | | Transmission & Distribution Mains | | 43,203 | 43,203 | - | - | 43,203 | - | - | - | 43,203 |
| 22 | 333 | | Services | | 260,975 | 260,975 | - | - | 260,975 | - | - | - | 260,975 |
| 23 | 334 | | Meters | | 39,040 | 39,040 | - | - | 39,040 | - | - | - | 39,040 |
| 24 | 335 | | Hydrants | | 4,099 | 4,099 | - | - | 4,099 | - | - | - | 4,099 |
| 25 | 336 | | Backflow Prevention Devices | | 5,550 | 5,550 | - | - | 5,550 | - | - | - | 5,550 |
| 26 | 339 | | Other Plant & Misc Equipment | | 889 | 889 | - | - | 889 | - | - | - | 889 |
| 27 | 340 | | Office Furniture & Equipment | | 4,200 | 4,200 | - | - | 4,200 | - | - | - | 4,200 |
| 28 | 340.1 | | Computers & Software | | - | - | - | - | - | - | - | - | - |
| 29 | 341 | | Transportation Equipment | | 2,450 | 2,450 | - | - | 2,450 | - | - | - | 2,450 |
| 30 | 342 | | Stores Equipment | | 5,628 | 5,628 | - | - | 5,628 | - | - | - | 5,628 |
| 31 | 343 | | Tools, Shop & Garage Equipment | | - | - | - | - | - | - | - | - | - |
| 32 | 344 | | Laboratory Equipment | | - | - | - | - | - | - | - | - | - |
| 33 | 345 | | Power Operated Equipment | | - | - | - | - | - | - | - | - | - |
| 34 | 346 | | Communication Equipment | | 3,912 | 3,912 | - | - | 3,912 | - | - | - | 3,912 |
| 35 | 347 | | Miscellaneous Equipment | | 3,383 | 3,383 | - | - | 3,383 | - | - | - | 3,383 |
| 36 | 348 | | Other Tangible Plant | | - | - | - | - | - | - | - | - | - |
| 37 | | | TOTALS | | \$ 556,045 | \$ 18,003 | \$ - | \$ - | \$ 538,041 | \$ (4,680) | \$ - | \$ - | \$ 533,361 |
| 38 | | | Equity Adjustments (Attachment 3, pg 21) | | \$ - | \$ 18,003 | \$ - | \$ - | \$ - | \$ 4,680 | \$ - | \$ - | \$ 22,683 |
| 39 | | | Accumulated Depreciation per Books | | | | | | | | | | \$ 556,045 |
| 40 | | | Increase / (Decrease) in Accumulated Depreciation | | | | | | | | | | \$ (22,683) |

¹ Adjusted accumulated depreciation balance including all book adjustments.

| Line No. | NARUC Account No. | Description | Per Decision No. 71869 - 09/01/2010 | | | | | Conform Current Books to 71869 | | | | |
|----------|-------------------|--------------------------------------|---------------------------------------|----------------------------------|---------------------------------|--------------------------------|-----------------------------|--|------------------------|---------------------------------|------------------------------------|--------------------------------------|
| | | | [1] Plant In Service at 12/31/2008 | [2] Less Post Test Year Plant | [3] Book Plant at 12/31/2008 | [4] Accum. Depr. 12/31/2008 | [5] Net Plant 12/31/2008 | [6] Non or Fully Depreciated Plant ¹ | [7] Depr'able Plant | [8] Book Plant at 12/31/2008 | [9] Conforming Plant Adjustment | [10] Adjusted Plant at 12/31/2008 |
| 1 | 301 | Organization Cost | 110 | | 110 | | 110 | | 110 | 110 | | 110 |
| 2 | 302 | Franchise Cost | | | | | | | | | | |
| 3 | 303 | Land and Land Rights | | | | | | | | | | |
| 4 | 304 | Structures & Improvements | 21,608 | | 21,608 | 11,506 | 10,102 | | 21,608 | 57,379 | (35,771) | 21,608 |
| 5 | 305 | Collecting & Impounding Reservoirs | | | | | | | | | | |
| 6 | 306 | Lake, River, Canal Intakes | | | | | | | | | | |
| 7 | 307 | Wells & Springs | 38,472 | | 38,472 | 20,485 | 17,987 | | 38,472 | 52,027 | (13,555) | 38,472 |
| 8 | 308 | Infiltration Galleries | | | | | | | | | | |
| 9 | 309 | Raw Water Supply Mains | | | | | | | | 991 | (991) | |
| 10 | 310 | Power Generation Equipment | | | | | | | | 9,494 | (9,494) | |
| 11 | 311 | Pumping Equipment | 104,270 | | 104,270 | 55,521 | 48,749 | | 104,270 | 94,776 | 9,494 | 104,270 |
| 12 | 320 | Water Treatment Equipment | | | | | | | | | | |
| 13 | 320 | Water Treatment Plants | | | | | | | | | | |
| 14 | 320 | Solution Chemical Feeders | 1,661 | | 1,661 | 884 | 776 | | 1,661 | 1,661 | | 1,661 |
| 15 | 330 | Distribution Reservoirs & Standpipes | | | | | | | | | | |
| 16 | 330.1 | Storage Tanks | 7,325 | | 7,325 | | | | 7,325 | 7,325 | | 7,325 |
| 17 | 330.2 | Pressure Tanks | 55,213 | | 55,213 | 3,900 | 3,425 | | 55,213 | | | 55,213 |
| 18 | 331 | Transmission & Distribution Mains | 412,204 | | 412,204 | 29,400 | 25,814 | | 412,204 | 400,508 | 11,696 | 412,204 |
| 19 | 333 | Services | 55,853 | | 55,853 | 29,740 | 26,113 | | 55,853 | 55,853 | | 55,853 |
| 20 | 334 | Meters | 3,434 | | 3,434 | 1,829 | 1,605 | | 3,434 | 3,541 | (107) | 3,434 |
| 21 | 335 | Hydrants | 8,774 | | 8,774 | 4,672 | 4,102 | | 8,774 | 8,774 | | 8,774 |
| 22 | 336 | Backflow Prevention Devices | 1,027 | | 1,027 | 547 | 480 | | 1,027 | 1,027 | | 1,027 |
| 23 | 339 | Other Plant & Misc Equipment | 4,850 | | 4,850 | 2,583 | 2,267 | | 4,850 | 34,998 | (30,148) | 4,850 |
| 24 | 340 | Office Furniture & Equipment | | | | | | | | | | |
| 25 | 340.1 | Computers & Software | | | | | | | | | | |
| 26 | 341 | Transportation Equipment | | | | | | | | | | |
| 27 | 342 | Stores Equipment | | | | | | | | | | |
| 28 | 343 | Tools, Shop & Garage Equipment | | | | | | | | | | |
| 29 | 344 | Laboratory Equipment | | | | | | | | | | |
| 30 | 345 | Power Operated Equipment | 5,000 | | 5,000 | 2,662 | 2,338 | | 5,000 | 5,000 | | 5,000 |
| 31 | 346 | Communication Equipment | 853 | | 853 | 454 | 399 | | 853 | 853 | | 853 |
| 32 | 347 | Miscellaneous Equipment | | | | | | | | | | |
| 33 | 348 | Other Tangible Plant | 20 | | 20 | 11 | 9 | | 20 | 20 | | 20 |
| 34 | | | | | | | | | | | | |
| 35 | | TOTAL | 720,673 | | 720,673 | 383,682 | 336,991 | | 720,673 | 734,335 | (13,662) | 720,673 |
| 36 | | | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | | | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | | |
| 39 | | | | | | | | | | | | |

40 ¹ Per Staff Depreciation Calculation

Granite Mountain Water Co., Inc.

Test Year Ended December 31, 2013

Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

Schedule RLJ-2
Supplemental
Page 5.2

| NARUC Account | | Description | Allowed Deprec. Rate | 2009 | | | | | | Net Plant | | | |
|---------------|-------------|---|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------|----------------------------|-----------|------------------|--------------------------|---------------|
| Line No. | Account No. | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Unbooked Retirements | Adjusted Plant Retirements | | Salvage A/D Only | Deprecation (Calculated) | Plant Balance |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | - | 110 | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | 36,913 | 36,913 | - | - | - | - | 1,334 | 58,521 | 12,840 | 45,681 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | - | - | - | - | - | 1,281 | 38,472 | 21,766 | 16,705 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | - | 13,034 | 104,270 | 68,555 | 35,715 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | - | 332 | 1,661 | 1,216 | 444 |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | - | - | - | - | - |
| 16 | 330.1 | Storage Tanks | 2.22% | 85,633 | (36,913) | 48,720 | - | - | - | 703 | 56,045 | 4,604 | 51,441 |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | - | 2,761 | 55,213 | 32,160 | 23,053 |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | 2,961 | 2,961 | - | - | - | - | 8,274 | 415,165 | 227,762 | 187,403 |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | - | 1,860 | 55,853 | 31,600 | 24,253 |
| 20 | 334 | Meters | 8.33% | - | - | - | - | - | - | 286 | 3,434 | 2,115 | 1,319 |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | - | 175 | 8,774 | 4,848 | 3,927 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | - | 68 | 1,027 | 615 | 411 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | - | 324 | 4,850 | 2,906 | 1,944 |
| 24 | 340 | Office Furniture & Equipment | 6.67% | - | - | - | - | - | - | - | - | - | - |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | - | - | - | - | - |
| 26 | 341 | Transportation Equipment | 20.00% | - | - | - | - | - | - | - | - | - | - |
| 27 | 342 | Stores Equipment | 4.00% | - | - | - | - | - | - | - | - | - | - |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | - | - | - | - | - | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | - | - | - | - | - | - | 250 | 5,000 | 2,912 | 2,088 |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | - | 85 | 853 | 540 | 313 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | - | - | - | - | - | - | - | - | - | - |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | - | 4 | 20 | 15 | 5 |
| 34 | | | | | | | | | | | | | |
| 35 | | TOTAL | | 88,594 | - | 88,594 | - | - | - | 30,772 | 809,267 | 414,454 | 394,813 |
| 36 | | | | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | | | 809,157 | | |
| 38 | | Composite Depreciation Rate | | | | | | | | | 3.8029% | | |
| 39 | | | | | | | | | | | | | |
| 40 | | ¹ Per Staff Depreciation Calculation | | | | | | | | | | | |

¹ Per Staff Depreciation Calculation

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2010 | | | | | | | Salvage A/D Only | Depreciation (Calculated) | Plant Balance | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------|----------------------------|--|------------------|---------------------------|---------------|----------------|-----------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Unbooked Retirements | Adjusted Plant Retirements | | | | | | |
| 1 | 301 | Organization Cost | 0.00% | | | - | | - | | | 110 | - | - | 110 | |
| 2 | 302 | Franchise Cost | 0.00% | | | - | | - | | | - | - | - | - | |
| 3 | 303 | Land and Land Rights | 0.00% | | | - | | - | | | - | - | - | - | |
| 4 | 304 | Structures & Improvements | 3.33% | | | - | | - | | | 58,521 | 14,788 | 43,732 | 43,732 | |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | | | - | | - | | | - | - | - | - | |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | | | - | | - | | | - | - | - | - | |
| 7 | 307 | Wells & Springs | 3.33% | | | - | | - | | | 38,472 | 23,048 | 15,424 | 15,424 | |
| 8 | 308 | Infiltration Galleries | 6.67% | | | - | | - | | | - | - | - | - | |
| 9 | 309 | Raw Water Supply Mains | 2.00% | | | - | | - | | | - | - | - | - | |
| 10 | 310 | Power Generation Equipment | 5.00% | | | - | | - | | | - | - | - | - | |
| 11 | 311 | Pumping Equipment | 12.50% | | | - | | - | | | 104,270 | 81,588 | 22,681 | 22,681 | |
| 12 | 320 | Water Treatment Equipment | 3.33% | | | - | | - | | | - | - | - | - | |
| 13 | 320 | Water Treatment Plants | 3.33% | | | - | | - | | | - | - | - | - | |
| 14 | 320 | Solution Chemical Feeders | 20.00% | 416 | | 416 | | - | | | - | 1,590 | 487 | 487 | |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | 450 | (450) | - | | - | | | - | - | - | - | |
| 16 | 330.1 | Storage Tanks | 2.22% | 21,072 | (6,700) | 14,372 | | - | | | - | - | - | - | |
| 17 | 330.2 | Pressure Tanks | 5.00% | | | - | | - | | | - | - | - | - | |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | | | - | | - | | | 374 | 1,590 | 487 | 487 | |
| 19 | 333 | Services | 3.33% | | | - | | - | | | 1,404 | 6,008 | 64,409 | 64,409 | |
| 20 | 334 | Meters | 8.33% | | | - | | - | | | 55,213 | 34,921 | 20,292 | 20,292 | |
| 21 | 335 | Hydrants | 2.00% | 2,628 | | 2,628 | | - | | | 415,165 | 236,065 | 179,100 | 179,100 | |
| 22 | 336 | Backflow Prevention Devices | 6.67% | | | - | | - | | | 8,303 | 33,460 | 22,393 | 22,393 | |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | | | - | | - | | | 396 | 2,510 | 3,552 | 3,552 | |
| 24 | 340 | Office Furniture & Equipment | 6.67% | | | - | | - | | | 175 | 5,023 | 3,751 | 3,751 | |
| 25 | 340.1 | Computers & Software | 20.00% | | | - | | - | | | 68 | 684 | 343 | 343 | |
| 26 | 341 | Transportation Equipment | 20.00% | 3,500 | 3,500 | - | | - | | | 1,027 | 3,230 | 1,620 | 1,620 | |
| 27 | 342 | Stores Equipment | 4.00% | | | - | | - | | | 4,850 | 3,230 | 1,620 | 1,620 | |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | | | - | | - | | | - | - | - | - | |
| 29 | 344 | Laboratory Equipment | 10.00% | | | - | | - | | | - | - | - | - | |
| 30 | 345 | Power Operated Equipment | 5.00% | | | - | | - | | | - | - | - | - | |
| 31 | 346 | Communication Equipment | 10.00% | 3,500 | 3,650 | 7,150 | | - | | | 5,000 | 3,162 | 1,838 | 1,838 | |
| 32 | 347 | Miscellaneous Equipment | 10.00% | | | - | | - | | | 443 | 982 | 7,021 | 7,021 | |
| 33 | 348 | Other Tangible Plant | 20.00% | | | - | | - | | | - | - | - | - | |
| 34 | | | | | | - | | - | | | 4 | 19 | 1 | 1 | |
| 35 | | TOTAL | | 28,067 | - | 28,067 | - | - | | | 837,333 | 447,428 | 389,905 | 389,905 | |

40 ¹ Per Staff Depreciation Calculation

[illegible]

40¹ Per Staff Depreciation Calculation

Reconciliation of Plant Additions, Retirements and Accumulated Depreciator

¹ Per Staff Depreciation Calculation

Granite Mountain Water Co., Inc.
Test Year Ended December 31, 2013
Reconciliation of Plant Additions, Retirements and Accumulated Depreciation

| Line No. | NARUC Account No. | Description | Allowed Deprec. Rate | 2013 | | | | | Accum. Deprec. | Net Plant |
|----------|-------------------|--------------------------------------|----------------------|-----------------|-------------------|--------------------------|-------------------|----------------------------|----------------|-----------|
| | | | | Plant Additions | Plant Adjustments | Adjusted Plant Additions | Plant Retirements | Adjusted Plant Retirements | | |
| 1 | 301 | Organization Cost | 0.00% | - | - | - | - | - | - | 110 |
| 2 | 302 | Franchise Cost | 0.00% | - | - | - | - | - | - | - |
| 3 | 303 | Land and Land Rights | 0.00% | - | - | - | - | - | - | - |
| 4 | 304 | Structures & Improvements | 3.33% | - | - | - | - | - | 20,635 | 37,886 |
| 5 | 305 | Collecting & Impounding Reservoirs | 2.50% | - | - | - | - | - | - | - |
| 6 | 306 | Lake, River, Canal Intakes | 2.50% | - | - | - | - | - | - | - |
| 7 | 307 | Wells & Springs | 3.33% | - | 539 | 539 | - | - | 26,900 | 12,111 |
| 8 | 308 | Infiltration Galleries | 6.67% | - | - | - | - | - | - | - |
| 9 | 309 | Raw Water Supply Mains | 2.00% | - | - | - | - | - | - | - |
| 10 | 310 | Power Generation Equipment | 5.00% | - | - | - | - | - | - | - |
| 11 | 311 | Pumping Equipment | 12.50% | - | - | - | - | - | 114 | 798 |
| 12 | 320 | Water Treatment Equipment | 3.33% | - | - | - | - | - | 104,270 | 0 |
| 13 | 320 | Water Treatment Plants | 3.33% | - | - | - | - | - | - | - |
| 14 | 320 | Solution Chemical Feeders | 20.00% | - | - | - | - | - | - | - |
| 15 | 330 | Distribution Reservoirs & Standpipes | 2.22% | - | - | - | - | - | 2,077 | (0) |
| 16 | 330.1 | Storage Tanks | 2.22% | - | - | - | - | - | - | - |
| 17 | 330.2 | Pressure Tanks | 5.00% | - | - | - | - | - | - | - |
| 18 | 331 | Transmission & Distribution Mains | 2.00% | - | - | - | - | - | 10,697 | 59,720 |
| 19 | 333 | Services | 3.33% | - | - | - | - | - | 43,203 | 12,010 |
| 20 | 334 | Meters | 8.33% | - | - | - | - | - | 260,975 | 154,190 |
| 21 | 335 | Hydrants | 2.00% | - | - | - | - | - | 39,040 | 16,813 |
| 22 | 336 | Backflow Prevention Devices | 6.67% | - | - | - | - | - | 4,099 | 2,554 |
| 23 | 339 | Other Plant & Misc Equipment | 6.67% | - | - | - | - | - | 5,550 | 3,225 |
| 24 | 340 | Office Furniture & Equipment | 6.67% | - | - | - | - | - | 889 | 138 |
| 25 | 340.1 | Computers & Software | 20.00% | - | - | - | - | - | 4,200 | 650 |
| 26 | 341 | Transportation Equipment | 20.00% | 19,000 | - | 19,000 | - | - | 2,450 | 1,050 |
| 27 | 342 | Stores Equipment | 4.00% | - | - | - | - | - | 5,628 | 20,828 |
| 28 | 343 | Tools, Shop & Garage Equipment | 5.00% | 149 | (149) | - | - | - | - | - |
| 29 | 344 | Laboratory Equipment | 10.00% | - | - | - | - | - | - | - |
| 30 | 345 | Power Operated Equipment | 5.00% | - | - | - | - | - | - | - |
| 31 | 346 | Communication Equipment | 10.00% | - | - | - | - | - | 3,912 | 1,088 |
| 32 | 347 | Miscellaneous Equipment | 10.00% | - | - | - | - | - | 3,383 | 4,620 |
| 33 | 348 | Other Tangible Plant | 20.00% | - | - | - | - | - | - | - |
| 34 | | | | - | - | - | - | - | 20 | 0 |
| 35 | | TOTAL | | 149 | 19,390 | 19,539 | - | - | 538,041 | 327,789 |
| 36 | | | | | | | | | | |
| 37 | | Depreciable Plant | | | | | | | 865,721 | |
| 38 | | Composite Depreciation Rate | | | | | | | 2.7763% | |
| 39 | | | | | | | | | | |

40 ¹ Per Staff Depreciation Calculation

| | | | |
|------------|-------------------------------------|----|---------------------|
| Line | | | |
| <u>No.</u> | | | |
| 1 | | | |
| 2 | Operation and Maintenance Expense | \$ | 60,410 |
| 3 | Less depreciation, taxes, purchased | | |
| 4 | power and purchased water | | |
| 5 | Factor - 1/8 | | <u>0.1250</u> |
| 6 | | \$ | 7,551 |
| 7 | | | |
| 8 | Purchased Power and Purchased Water | \$ | 9,139 |
| 9 | Factor - 1/24 | | <u>0.0417</u> |
| 10 | | \$ | 381 |
| 11 | | | |
| 12 | Total Cash Working Capital | \$ | <u><u>7,932</u></u> |
| 13 | | | |
| 14 | | | |

| Line No. | | Actual for Test Year Ended 12/31/2013 | Total Pro forma Adjustments | Test Year Results After Pro forma Adjustments | Proposed Rate Increase | Adjusted With Rate Increase |
|-------------|---|--|-----------------------------------|---|------------------------------|-----------------------------------|
| 1 | Revenues | | | | | |
| 2 | 460 Unmetered Water Revenue | \$ - | \$ - | \$ - | - | \$ - |
| 3 | 461 Metered Water Revenues | 112,585 | 1,561 | 114,145 | 60,243 | 174,389 |
| 4 | 471 Miscellaneous Service Revenue | 3,174 | - | 3,174 | - | 3,174 |
| 5 | Total Revenues | \$ 115,759 | \$ 1,561 | \$ 117,320 | \$ 60,243 | \$ 177,563 |
| 6 | Operating Expenses | | | | | |
| 7 | 601 Salaries and Wages | \$ 39,942 | \$ (8,618) | \$ 31,324 | | \$ 31,324 |
| 8 | 603 Salaries and Wages - Officers and Directors | - | 6,440 | 6,440 | | 6,440 |
| 9 | 604 Employee Pension and Benefits | - | - | - | | - |
| 10 | 610 Purchased Water | - | - | - | | - |
| 11 | 615 Purchased Power | 8,950 | 190 | 9,139 | | 9,139 |
| 12 | 618 Chemicals | 47 | 45 | 92 | | 92 |
| 13 | 620 Repairs and Maintenance | 4,339 | (2,433) | 1,906 | | 1,906 |
| 14 | 621 Office Supplies Expense | 8,314 | (3,876) | 4,437 | | 4,437 |
| 15 | 631 Contractual Services - Engineering | - | - | - | | - |
| 16 | 632 Contractual Services - Accounting | - | - | - | | - |
| 17 | 633 Contractual Services - Legal | - | - | - | | - |
| 18 | 634 Contractual Services - Management Fees | - | - | - | | - |
| 19 | 635 Contractual Services - Testing | 5,380 | (3,530) | 1,850 | | 1,850 |
| 20 | 636 Contractual Services - Other | 11,353 | (6,709) | 4,644 | | 4,644 |
| 21 | 641 Rent - Buildings | - | 2,194 | 2,194 | | 2,194 |
| 22 | 642 Rent - Equipment | - | - | - | | - |
| 23 | 650 Transportation Expense | 5,453 | (1,214) | 4,239 | | 4,239 |
| 24 | 656 Insurance - Vehicle | - | - | - | | - |
| 25 | 657 Insurance - General Liability | 1,292 | 282 | 1,574 | | 1,574 |
| 26 | 658 Insurance - Workman's Compensation | - | - | - | | - |
| 27 | 659 Insurance - Other | - | 520 | 520 | | 520 |
| 28 | 660 Advertising Expense | - | - | - | | - |
| 29 | 666 Regulatory Commission Expense - Rate Case | - | 10,000 | 10,000 | | 10,000 |
| 30 | 667 Regulatory Expense - Other | 321 | - | 321 | | 321 |
| 31 | 668 Water Resource Conservation Expense | - | - | - | | - |
| 32 | 670 Bad Debt Expense | - | 772 | 772 | 397 | 1,169 |
| 33 | 675 Miscellaneous Expense | 840 | (744) | 96 | | 96 |
| 34 | 403 Depreciation Expense | 33,874 | (154) | 33,720 | | 33,720 |
| 35 | 408 Taxes Other Than Income | - | 2,765 | 2,765 | | 2,765 |
| 36 | 408.11 Property Taxes | 1,619 | 2,791 | 4,410 | 830 | 5,240 |
| 37 | 409 Income Tax | - | (385) | (385) | 9,190 | 8,804 |
| 38 | Total Operating Expenses | \$ 121,723 | \$ (1,663) | \$ 120,060 | \$ 10,416 | \$ 130,476 |
| 39 | Operating Income | \$ (5,964) | \$ 3,224 | \$ (2,740) | \$ 49,828 | \$ 47,087 |
| 40 | Other Income (Expense) | | | | | |
| 41 | 419 Interest and Dividend Income | \$ - | \$ - | \$ - | | \$ - |
| 42 | 421 Non-Utility Income | 59 | - | 59 | | 59 |
| 43 | 426 Miscellaneous Non-Utility Expenses | - | - | - | | - |
| 44 | 427 Interest Expense | (34) | 34 | - | | - |
| 45 | Total Other Income (Expense) | \$ 24 | \$ 34 | \$ 59 | \$ - | \$ 59 |
| 46 | Net Income (Loss) | \$ (5,940) | \$ 3,258 | \$ (2,682) | \$ 49,828 | \$ 47,146 |
| 47 | | | | | | |

Witness:

| Line No. | Revenues | Actual for Test Year Ended 12/31/2013 | ADJ IS-1 Eliminate Revenue Adjustments | ADJ IS-2 Correct Underbilled Revenue | ADJ IS-3 2014 Salary Increase | ADJ IS-4 Reclass Cust. Deposit Interest | ADJ IS-5 Reclass Bad Debt Expense | Rebuttal Adjustments | | |
|----------|---|---------------------------------------|--|--------------------------------------|-------------------------------|---|-----------------------------------|----------------------|----------------------|-----------------------------|
| | | | | | | | | Staff Adj. No. 1 | Staff Adj. No. 2 - 6 | Staff Adj. No. 7 Adj. No. 8 |
| 1 | Unmetered Water Revenue | \$ - | | | | | | | | |
| 2 | Metered Water Revenues | 112,585 | 1,040 | 647 | | | | (127) | | |
| 3 | Miscellaneous Service Revenue | 3,174 | | | | | | | | |
| 4 | Total Revenues | \$ 115,759 | \$ 1,040 | \$ 647 | \$ - | \$ - | \$ - | \$ (127) | \$ - | \$ - |
| 5 | Operating Expenses | | | | | | | | | |
| 6 | Salaries and Wages | 39,942 | | | 5,000 | | | | | (\$13,618) |
| 7 | Salaries and Wages - Officers and Directors | - | | | | | | | | 6,440 |
| 8 | Employee Pension and Benefits | - | | | | | | | | |
| 9 | Purchased Water | - | | | | | | | | |
| 10 | Power | 8,950 | | | | | | | | 190 |
| 11 | Chemicals | 47 | | | | | | | | 45 |
| 12 | Repairs and Maintenance | 4,339 | | | | | | | (1,792) | (641) |
| 13 | Office Supplies Expense | 8,314 | | | | | | | (1,727) | (2,149) |
| 14 | Contractual Services - Engineering | - | | | | | | | | |
| 15 | Contractual Services - Accounting | - | | | | | | | | |
| 16 | Contractual Services - Legal | - | | | | | | | | |
| 17 | Contractual Services - Management Fees | - | | | | | | | | |
| 18 | Contractual Services - Testing | 5,380 | | | | | | | (3,530) | 822 |
| 19 | Contractual Services - Other | 11,353 | | | | | | | (7,531) | 2,194 |
| 20 | Rent - Buildings | - | | | | | | | | |
| 21 | Rent - Equipment | - | | | | | | | (900) | (314) |
| 22 | Transportation Expense | 5,453 | | | | | | | | |
| 23 | Insurance - Vehicle | - | | | | | | | | |
| 24 | Insurance - General Liability | 1,292 | | | | | | | | |
| 25 | Insurance - Workman's Compensation | - | | | | | | | | 282 |
| 26 | Insurance - Other | - | | | | | | | | 520 |
| 27 | Advertising Expense | - | | | | | | | 6,667 | |
| 28 | Regulatory Commission Expense - Rate Case | - | | | | | | | | |
| 29 | Regulatory Expense - Other | 321 | | | | | | | | |
| 30 | Water Resource Conservation Expense | - | | | | | | | | |
| 31 | Bad Debt Expense | - | | | | | | | 772 | |
| 32 | Miscellaneous Expense | 840 | | | | | | | (772) | (6) |
| 33 | Depreciation Expense | 33,874 | | | | | | | | |
| 34 | Taxes Other Than Income | - | | | | | | | | |
| 35 | Property Taxes | 1,619 | | | | | | | | 2,765 |
| 36 | Income Tax | - | | | | | | | | |
| 37 | Total Operating Expenses | \$ 121,723 | \$ - | \$ - | \$ 5,000 | \$ 34 | \$ - | \$ - | \$ (15,480) | \$ (3,470) |
| 38 | Operating Income | \$ (5,964) | \$ 1,040 | \$ 647 | \$ (5,000) | \$ (34) | \$ - | \$ (127) | \$ 15,480 | \$ 3,470 |
| 39 | Other Income (Expense) | | | | | | | | | |
| 40 | Interest and Dividend Income | - | | | | | | | | |
| 41 | Non-Utility Income | 59 | | | | | | | | |
| 42 | Miscellaneous Non-Utility Expenses | - | | | | | | | | |
| 43 | Interest Expense | (34) | | | | | | | | |
| 44 | Total Other Income (Expense) | \$ 24 | \$ - | \$ - | \$ - | \$ 34 | \$ - | \$ - | \$ - | \$ - |
| 45 | Net Income (Loss) | \$ (5,940) | \$ 1,040 | \$ 647 | \$ (5,000) | \$ - | \$ - | \$ (127) | \$ 15,480 | \$ (6,667) \$ 3,470 |

| Line No. | Revenues | Updated Supplemental Adjustments | | | | | Total Adjustments | Test Year Adjusted Results |
|----------|---|--|--|--|---|------------|-------------------|----------------------------|
| | | ADJ IS-6 Rate Case Expense | ADJ IS-7 Adjust Depreciation Expense | ADJ IS-8 Adjust Property Taxes | ADJ IS-9 Income Tax Allowance | | | |
| 1 | 460 Unmetered Water Revenue | | | | | \$ - | \$ - | \$ - |
| 2 | 461 Metered Water Revenues | | | | | 1,561 | 1,561 | 114,145 |
| 3 | 471 Miscellaneous Service Revenue | | | | | - | - | 3,174 |
| 4 | Total Revenues | \$ - | \$ - | \$ - | \$ - | \$ - | 1,561 | 117,320 |
| 5 | Operating Expenses | | | | | | | |
| 6 | 601 Salaries and Wages | | | | | \$ - | (8,618) | \$ 31,324 |
| 7 | 603 Salaries and Wages - Officers and Directors | | | | | 6,440 | 6,440 | 6,440 |
| 8 | 604 Employee Pension and Benefits | | | | | - | - | - |
| 9 | 610 Purchased Water | | | | | - | - | - |
| 10 | 615 Purchased Power | | | | | - | 190 | 9,139 |
| 11 | 618 Chemicals | | | | | - | 45 | 92 |
| 12 | 620 Repairs and Maintenance | | | | | - | (2,433) | 1,906 |
| 13 | 621 Office Supplies Expense | | | | | - | (3,876) | 4,437 |
| 14 | 631 Contractual Services - Engineering | | | | | - | - | - |
| 15 | 632 Contractual Services - Accounting | | | | | - | - | - |
| 16 | 633 Contractual Services - Legal | | | | | - | - | - |
| 17 | 634 Contractual Services - Management Fees | | | | | - | - | - |
| 18 | 635 Contractual Services - Testing | | | | | - | (3,530) | 1,850 |
| 19 | 636 Contractual Services - Other | | | | | - | (6,709) | 4,644 |
| 20 | 641 Rent - Buildings | | | | | - | 2,194 | 2,194 |
| 21 | 642 Rent - Equipment | | | | | - | (1,214) | 4,239 |
| 22 | 650 Transportation Expense | | | | | - | - | - |
| 23 | 656 Insurance - Vehicle | | | | | - | 282 | 1,574 |
| 24 | 657 Insurance - General Liability | | | | | - | - | - |
| 25 | 658 Insurance - Workman's Compensation | | | | | - | - | - |
| 26 | 659 Insurance - Other | | | | | - | 520 | 520 |
| 27 | 660 Advertising Expense | | | | | - | - | - |
| 28 | 666 Regulatory Commission Expense - Rate Case | 3,333 | | | | 10,000 | 10,000 | 10,000 |
| 29 | 667 Regulatory Expense - Other | | | | | - | - | 321 |
| 30 | 668 Water Resource Conservation Expense | | | | | - | - | - |
| 31 | 670 Bad Debt Expense | | | | | - | 772 | 772 |
| 32 | 675 Miscellaneous Expense | | | | | - | (744) | 96 |
| 33 | 403 Depreciation Expense | | (154) | | | (154) | (154) | 33,720 |
| 34 | 408 Taxes Other Than Income | | | | | 2,765 | 2,765 | 2,765 |
| 35 | 408 Property Taxes | | | 2,791 | | 2,791 | 2,791 | 4,410 |
| 36 | 409 Income Tax | | | | (385) | (385) | (385) | (385) |
| 37 | Total Operating Expenses | \$ 3,333 | \$ (154) | \$ 2,791 | \$ (385) | \$ (1,663) | \$ (1,663) | \$ 120,060 |
| 38 | Operating Income | \$ (3,333) | \$ 154 | \$ (2,791) | \$ 385 | \$ 3,224 | \$ 3,224 | \$ (2,740) |
| 39 | Other Income (Expense) | | | | | | | |
| 40 | 419 Interest and Dividend Income | | | | | \$ - | \$ - | \$ - |
| 41 | 421 Non-Utility Income | | | | | - | - | 59 |
| 42 | 426 Miscellaneous Non-Utility Expenses | | | | | - | - | - |
| 43 | 427 Interest Expense | | | | | - | - | - |
| 44 | Total Other Income (Expense) | \$ - | \$ - | \$ - | \$ - | \$ 34 | \$ 34 | \$ - |
| 45 | Net Income (Loss) | \$ (3,333) | \$ 154 | \$ (2,791) | \$ 385 | \$ 3,258 | \$ 3,258 | \$ (2,682) |

Line

No.

1 Eliminate Revenue Adjustments

2

3 Eliminate various nonrecurring revenue adjustments

4

As Booked

5 Prior Period Adjustment - 5/8" x 3/4" Meter Revenue

\$ (1,564.42)

6 Non Bill Usage - Residential

(70.33)

7 J.E. Error

(30.00)

8 Prior Period Adjustment - Other

(3.00)

9 Prior Period Adjustment - Other

(7,900.21)

10 Prior Period Adjustment - Other

8,527.58

11

\$ (1,040.38)

12

13 Increase/(Decrease) in Metered

\$ 1,040.38

14

Line

No.

| | | | |
|----|--|---------|----------------------|
| 1 | <u>Correct Underbilled Revenue</u> | | |
| 2 | | | |
| 3 | For the 5/8" x 3/4" Class, usage between 10,001 gallons and 14,000 gallons | | |
| 4 | was billed at \$6.60 per 1,000 gallons rather than \$7.90 per 1,000 gallons. | | |
| 5 | | | |
| 6 | 5/8" x 3/4" Class usage between 10,001 gallons and 14,000 gallons | 497,860 | gallons |
| 7 | Rate Differential | \$ | <u>1.30</u> |
| 8 | Underbilled Revenue | | 647.22 |
| 9 | | | |
| 10 | | | |
| 11 | Increase/(Decrease) in Metered Revenue | \$ | <u><u>647.22</u></u> |
| 12 | | | |

Line

No.

| | | | |
|---|---|--------------|--------------------|
| 1 | <u>Adjust for 2014 Salary Increase</u> | | |
| 2 | | | |
| 3 | Total 2014 increase in employee salary | \$ 20,000.00 | |
| 4 | Percentage Allocated to Granite Mountain | 25% | |
| 5 | Salary increase for Granite Mountain | \$ 5,000.00 | |
| 6 | | | |
| 7 | Increase/(Decrease) in Salaries and Wages | | <u>\$ 5,000.00</u> |
| 8 | | | |
| 9 | | | |

Line

No.

| | | |
|----|---|-------------------|
| 1 | <u>Reclass Customer Deposit Interest</u> | |
| 2 | | |
| 3 | | |
| 4 | Customer Deposit Interest Charged to Interest Expense | 34.35 |
| 5 | | |
| 6 | Increase/(Decrease) in Interest Expense | <u>\$ (34.35)</u> |
| 7 | | |
| 8 | Increase/(Decrease) in Miscellaneous Expense | <u>\$ 34.35</u> |
| 9 | | |
| 10 | | |

Line

No.

| | | |
|----|--|--------------------|
| 1 | <u>Reclass Bad Debt Expense</u> | |
| 2 | | |
| 3 | | |
| 5 | Customer Bad Debt Charged to Miscellaneous Expense | 772.17 |
| 6 | | |
| 7 | Increase/(Decrease) in Miscellaneous Expense | <u>\$ (772.17)</u> |
| 8 | | |
| 9 | Increase/(Decrease) in Bad Debt Expense | <u>\$ 772.17</u> |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |

Adjust Rate Case Expense

Line

No.

| | | | |
|----|--|----|--------|
| 1 | Estimated Rate Case Expense | \$ | 10,000 |
| 2 | | | |
| 3 | Amortization Period (Years) | | 3 |
| 4 | | | |
| 5 | Annualized Rate Case Expense | \$ | 3,333 |
| 6 | | | |
| 7 | Test Year Rate Case Expense | | - |
| 8 | | | |
| 9 | Increase / (Decrease) in Rate Case Expense | | 3,333 |
| 10 | | | |

Adjust Depreciation Expense to Reflect Adjusted Plant Balances

| Line | No. | Acct Description | Adjusted Test Year Balance 12/31/2013 | Fully Depreciated Plant | Depreciable Plant | Proposed Depreciation Rate | Depreciation Expense |
|------|-------|---|--|-------------------------------|----------------------|----------------------------------|-------------------------|
| 1 | | | | | | | |
| 2 | 301 | Organization Cost | \$ 110 | | \$ 110 | 0.00% | \$ - |
| 3 | 302 | Franchise Cost | - | | - | 0.00% | - |
| 4 | 3 | Land and Land Rights | 48,500 | | 48,500 | 0.00% | - |
| 5 | 304 | Structures & Improvements | 79,894 | | 79,894 | 3.33% | 2,660 |
| 6 | 305 | Collecting & Impounding Reservoirs | - | | - | 2.50% | - |
| 7 | 306 | Lake, River, Canal Intakes | - | | - | 2.50% | - |
| 8 | 307 | Wells & Springs | 60,946 | | 60,946 | 3.33% | 2,030 |
| 9 | 308 | Infiltration Galleries | - | | - | 6.67% | - |
| 10 | 309 | Raw Water Supply Mains | - | | - | 2.00% | - |
| 11 | 310 | Power Generation Equipment | 912 | | 912 | 5.00% | 46 |
| 12 | 311 | Pumping Equipment | 121,906 | (104,270) | 17,637 | 12.50% | 2,205 |
| 13 | 320 | Water Treatment Equipment | - | | - | 3.33% | - |
| 14 | 320.1 | Water Treatment Plants | - | | - | 3.33% | - |
| 15 | 320.2 | Solution Chemical Feeders | 7,745 | (2,077) | 5,669 | 20.00% | 1,134 |
| 16 | 330 | Distribution Reservoirs & Standpipes | - | | - | 2.22% | - |
| 17 | 330.1 | Storage Tanks | 172,640 | | 172,640 | 2.22% | 3,833 |
| 18 | 330.2 | Pressure Tanks | 55,213 | | 55,213 | 5.00% | 2,761 |
| 19 | 331 | Transmission & Distribution Mains | 450,034 | | 450,034 | 2.00% | 9,001 |
| 20 | 333 | Services | 55,934 | | 55,934 | 3.33% | 1,863 |
| 21 | 334 | Meters | 6,652 | | 6,652 | 8.33% | 554 |
| 22 | 335 | Hydrants | 8,774 | | 8,774 | 2.00% | 175 |
| 23 | 336 | Backflow Prevention Devices | 1,428 | | 1,428 | 6.67% | 95 |
| 24 | 339 | Other Plant & Misc Equipment | 4,850 | | 4,850 | 6.67% | 324 |
| 25 | 340 | Office Furniture & Equipment | - | | - | 6.67% | - |
| 26 | 340.1 | Computers & Software | 3,500 | | 3,500 | 20.00% | 700 |
| 27 | 341 | Transportation Equipment | 26,456 | | 26,456 | 20.00% | 5,291 |
| 28 | 342 | Stores Equipment | - | | - | 4.00% | - |
| 29 | 343 | Tools, Shop & Garage Equipment | - | | - | 5.00% | - |
| 30 | 344 | Laboratory Equipment | - | | - | 10.00% | - |
| 31 | 345 | Power Operated Equipment | 5,000 | | 5,000 | 5.00% | 250 |
| 32 | 346 | Communication Equipment | 8,003 | | 8,003 | 10.00% | 800 |
| 33 | 347 | Miscellaneous Equipment | - | | - | 10.00% | - |
| 34 | 348 | Other Tangible Plant | 20 | (20) | 0 | 20.00% | - |
| 35 | | TOTALS | \$ 1,118,519 | \$ (106,366) | \$ 1,012,152 | | \$ 33,720 |
| 36 | | | | | | | |
| 37 | | Less: Amortization of CIAC | \$ - | | | 3.4996% | \$ - |
| 38 | | | | | | | |
| 39 | | Adjusted Test Year Depreciation Expense | | | | | \$ 33,720 |
| 40 | | | | | | | |
| 41 | | Test Year Depreciation Expense | | | | | \$ 33,874 |
| 42 | | | | | | | |
| 43 | | Increase / (Decrease) in Depreciation Expense | | | | | \$ (154) |

Adjust Property Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

| Line No. | Description | Company As Adjusted | Company Proposed |
|-------------|---|------------------------|--|
| 1 | Adjusted Test Year Revenue | \$ 117,320 | \$ 117,320 |
| 2 | Adjusted Test Year Revenue | 117,320 | 117,320 |
| 3 | Adjusted Test Year Revenue | 117,320 | |
| 4 | Proposed Revenues after Increase | | 177,563 |
| 5 | Average of three year's of revenue | 117,320 | 137,401 |
| 6 | Average of three year's of revenue, times 2 | 234,639 | 274,801 |
| 7 | Add: | | |
| 8 | Construction Work In Progress at 10% | - | - |
| 9 | Deduct: | | |
| 10 | Net Book Value of Transportation Equipment | 21,165 | 21,165 |
| 11 | | | |
| 12 | Full Cash Value | 213,474 | 253,636 |
| 13 | Assessment Ratio | 18.5% | 18.5% |
| 14 | Assessed Value | 39,493 | 46,923 |
| 15 | Property Tax Rate (2012 Tax Year) | 11.1667% | 11.1667% |
| 16 | | | |
| 17 | Adjusted Test Year Property Tax | \$ 4,410 | |
| 18 | Recorded Test Year Property Tax | 1,619 | |
| 19 | Test Year Adjustment | \$ 2,791 | |
| 20 | | | |
| 21 | Property Tax at Proposed Rates | | \$ 5,240 |
| 22 | Adjusted Test Year Property Tax | | 4,410 |
| 23 | Increase in Property Tax due to Rate Increase | | \$ 830 |
| 24 | | | |
| 25 | <u>Calculation of Property Tax Factor</u> | | |
| 26 | Increase to Property Tax Expense | | \$ 830 |
| 27 | Increase in Revenue Requirement | | \$ 60,243 |
| 28 | Property Tax Factor (L25 / L26) | | 1.3772% |
| 29 | | | |
| 30 | | 2013 | |
| 31 | CALCULATION OF TAX RATE | <u>Value</u> | <u>Ratio</u> <u>Tax Value</u> <u>Tax</u> <u>Rate</u> |
| 32 | 923-70-190 | 157,000 | 19.5% 30,615 3,419 11.1667% |

Adjust Income Tax Expense to Reflect Adjusted Test Year and Proposed Revenues

| Line No. | Description | Adjusted Test Year | Proposed with Increase |
|----------|--|--------------------|------------------------|
| 1 | | | |
| 2 | <u>Calculation of Income Tax:</u> | | |
| 3 | Revenue | \$ 117,320 | \$ 177,563 |
| 4 | Less: Operating Expenses (Excluding Income Taxes) | 120,445 | 121,672 |
| 5 | Less: Synchronized Interest | | - |
| 6 | Arizona Taxable Income | \$ (3,126) | \$ 55,891 |
| 7 | <u>AZ - Individual Tax Calculation (Married Filing Jointly - 2015)</u> | | |
| 8 | <u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u> | | |
| 9 | \$ - \$ 20,000 \$ - 2.5900% | \$ (81) | \$ - |
| 10 | 20,000 50,000 (58.00) 2.8800% | - | - |
| 11 | 50,000 100,000 (298.00) 3.3600% | - | 1,580 |
| 12 | 100,000 300,000 (1,178.00) 4.2400% | - | - |
| 13 | 300,000 999,999,999 (2,078.00) 4.5400% | - | - |
| 14 | Arizona Income Tax | \$ (81) | \$ 1,580 |
| 15 | Federal Taxable Income | \$ (3,045) | \$ 54,311 |
| 16 | <u>Federal - Individual Tax Calculation (Married Filing Jointly - 2015)</u> | | |
| 17 | <u>Over</u> <u>But not Over</u> <u>Amount plus</u> <u>%</u> | | |
| 18 | \$ - \$ 18,450 \$ - 10.0000% | \$ (304) | \$ - |
| 19 | 18,450 74,900 1,845.00 15.0000% | - | 7,224 |
| 20 | 74,900 151,200 10,312.50 25.0000% | - | - |
| 21 | 151,200 230,450 29,387.50 28.0000% | - | - |
| 22 | 230,450 411,500 51,577.50 33.0000% | - | - |
| 23 | 411,500 464,850 111,324.00 35.0000% | - | - |
| 24 | 464,850 9,999,999,999 129,996.50 39.6000% | | |
| 25 | | | |
| 26 | Total Federal Income Tax | \$ (304) | \$ 7,224 |
| 27 | | | |
| 28 | Combined Federal and State Income Tax | \$ (385) | \$ 8,804 |
| 29 | | | |
| 30 | Effective State Tax Rate | 2.5900% | 2.8268% |
| 31 | Effective Federal Tax Rate | 10.0000% | 13.3015% |
| 32 | Effective Combined Tax Rate | 12.3310% | 15.7523% |
| 33 | | | |
| 34 | Applicable Arizona State Income Tax Rate (Rate Applicable to Revenue Increase) | | 2.8143% |
| 35 | Applicable Federal Income Tax Rate (Rate Applicable to Revenue Increase) | | 13.1262% |
| 36 | | | |
| 37 | <u>Calculation of Interest Synchronization</u> | | |
| 38 | Rate Base \$ 586,318 | | |
| 39 | Weighted Average Cost of Debt | | |
| 40 | Synchronized Interest \$ - | | |
| 41 | | | |
| 42 | <u>Income Tax Adjustments</u> | | |
| 43 | Test Year Income Taxes - Booked | \$ - | |
| 44 | Increase / (decrease) in Income Taxes (L21 - L32) | (385) | |
| 45 | | | |
| 46 | Test Year Income Taxes - Adjusted | | \$ (385) |
| 47 | Increase / (decrease) in Federal Income Taxes (L21 - L35) | | 9,190 |
| 48 | | | |
| 49 | | | |

Line

Calculation of Gross Revenue Conversion Factor

| | | |
|---|---|-----------|
| 1 | Revenue | 100.0000% |
| 2 | Uncollectable Factor (Line 11) | 0.5557% |
| 3 | Revenue (L1 - L2) | 99.4443% |
| 4 | Combined Income Tax and Property Tax Rate (Line 23) | 16.7339% |
| 5 | Operating Income Percentage (L3 -L4) | 82.7105% |
| 6 | Gross Revenue Conversion Factor (L1 / L5) | 1.209037 |

Calculation of Uncollectable Factor

| | | |
|----|---|-----------|
| 7 | Unity | 100.0000% |
| 8 | Combined Federal and State Tax Rate (Line 17) | 15.5711% |
| 9 | One Minus Combined Federal and State Tax Rate (L7 - L8) | 84.4289% |
| 10 | Uncollectable Rate (Line 26) | 0.6582% |
| 11 | Uncollectable Factor (L9 * L10) | 0.5557% |

Calculation of Effective Tax Rate

| | | |
|----|---|-----------|
| 12 | Operating Income Before Taxes | 100.0000% |
| 13 | Applicable Arizona State Tax Rate (from Schedule C-2) | 2.8143% |
| 14 | Federal Taxable Income (L12 - L13) | 97.1857% |
| 15 | Applicable Federal Tax Rate (from Schedule C-2) | 13.1262% |
| 16 | Effective Federal Tax Rate (L14 * L15) | 12.7568% |
| 17 | Combined Federal and State Tax Rate (L13 + L16) | 15.5711% |

Calculation of Effective Property Tax Rate

| | | |
|----|--|-----------|
| 18 | Unity | 100.0000% |
| 19 | Combined Federal and State Tax Rate (Line 17) | 15.5711% |
| 20 | One Minus Combined Income Tax Rate (L18 - L19) | 84.4289% |
| 21 | Property Tax Factor (from Schedule C-2) | 1.3772% |
| 22 | Effective Property Tax Factor (L20 * L21) | 1.1628% |
| 23 | Combined Federal and State Income Tax Rate and Property Tax Rate (L17 + L22) | 16.7339% |

Calculation of Uncollectable Rate

| | | |
|----|--------------------------------------|-----------|
| 24 | Bad Debt Expense (from Schedule C-1) | \$ 772 |
| 25 | Total Revenues (from Schedule C-1) | 117,320 |
| 26 | Uncollectable Rate (L24 / L25) | 0.6582% |
| 27 | Revenue Increase (from Schedule C-1) | \$ 60,243 |
| 28 | Uncollectable Rate (Line 26) | 0.6582% |
| 29 | Bad Debt Expense due to Increase | \$ 397 |

| <u>No.</u> | <u>General Water Service Rates</u> | | | Base Charge | | | Volume Charge | | |
|------------------------|------------------------------------|------------------------------------|-------------------------------------|-----------------|------------------|-----------|-----------------|------------------|---------|
| | | Present Rate Tiers (gallons) | Proposed Rate Tiers (gallons) | Present Rate | Proposed Rate | Change | Present Rate | Proposed Rate | Change |
| R1 - 5/8" x 3/4" Meter | Tier 1 | 4,000 | 3,000 | \$ 25.00 | \$ 37.80 | \$ 12.80 | \$ 4.40 | \$ 6.65 | \$ 2.25 |
| | Tier 2 | 10,000 | 10,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R2 - 3/4" Meter | Tier 1 | 4,000 | 3,000 | \$ 37.50 | \$ 56.70 | \$ 19.20 | \$ 4.40 | \$ 6.65 | \$ 2.25 |
| | Tier 2 | 10,000 | 10,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R3 - 1" Meter | Tier 1 | - | - | \$ 62.50 | \$ 94.50 | \$ 32.00 | | | |
| | Tier 2 | 10,000 | 15,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R4 - 1.5" Meter | Tier 1 | - | - | \$ 125.00 | \$ 189.00 | \$ 64.00 | | | |
| | Tier 2 | 20,000 | 30,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R5 - 2" Meter | Tier 1 | - | - | \$ 200.00 | \$ 302.40 | \$ 102.40 | | | |
| | Tier 2 | 40,000 | 50,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R6 - 3" Meter | Tier 1 | - | - | \$ 400.00 | \$ 604.80 | \$ 204.80 | | | |
| | Tier 2 | 144,000 | 100,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R7 - 4" Meter | Tier 1 | - | - | \$ 625.00 | \$ 945.00 | \$ 320.00 | | | |
| | Tier 2 | 225,000 | 150,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| R8 - 6" Meter | Tier 1 | - | - | \$ 1,250.00 | \$ 1,890.00 | \$ 640.00 | | | |
| | Tier 2 | 450,000 | 300,000 | | | | \$ 6.60 | \$ 9.95 | \$ 3.35 |
| | Tier 3 | 999,999,000 | 999,999,000 | | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| Hydrant Meter | Tier 3 | 999,999,000 | 999,999,000 | By Meter Size | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |
| Standpipe | Tier 3 | 999,999,000 | 999,999,000 | None | | | \$ 7.90 | \$ 11.90 | \$ 4.00 |

| Line No. | | Present Rates | Proposed Rates |
|----------|--|--|--|
| 1 | <u>Other Service Charges</u> | | |
| 2 | | | |
| 3 | Establishment | \$ 25.00 | \$ 25.00 |
| 4 | Establishment (After Hours) | \$ 35.00 | n/t |
| 5 | Reconnection (Delinquent) | \$ 35.00 | \$ 35.00 |
| 6 | Reconnection (Delinquent) (After Hours) | \$ 45.00 | n/t |
| 7 | After Hours Charge | n/t | \$ 25.00 |
| 8 | Meter Test (If correct) | \$ 35.00 | \$ 35.00 |
| 9 | Deposit Requirement | 2 times the average bill | 2 times the average bill |
| 10 | Deposit Interest | 6% per year | 6% per year |
| 11 | Re-Establishment (Within 12 Months) | Number of Months off system times the monthly minimum charge | Number of Months off system times the monthly minimum charge |
| 12 | NSF Check | \$ 20.00 | \$ 20.00 |
| 13 | Deferred Payment, Per Month | 1.5% | 1.5% |
| 14 | Meter Re-Read (If correct) | \$ 15.00 | \$ 15.00 |
| 15 | Moving Customer Meter at Customer Request | Cost | Cost |
| 16 | Late Charge per month | 1.50% | 1.50% |
| 17 | | | |
| 18 | In addition to the collection of regular rates, the utility will collect from its | | |
| 19 | customers a proportionate share of any privilege, sales, use, and franchise tax, | | |
| 20 | per Commission rule A.A.C. 14-2-409(D)(5). | | |
| 21 | | | |
| 22 | All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes. | | |
| 23 | | | |
| 24 | n/t - no tariff | | |
| 25 | | | |
| 26 | <u>Service Line and Meter Installation Charges</u> | | |
| 27 | | Present Rates | Proposed Rates |
| 28 | | <u>Srv. Line</u> <u>Meter</u> <u>Total</u> | <u>Srv. Line</u> <u>Meter</u> <u>Total</u> |
| 28 | 5/8" x 3/4" Meter | \$ 405 \$ 95 \$ 500 | \$ 450 \$ 150 \$ 600 |
| 29 | 3/4" Meter | \$ 413 \$ 162 \$ 575 | \$ 450 \$ 250 \$ 700 |
| 30 | 1" Meter | \$ 441 \$ 209 \$ 650 | \$ 575 \$ 300 \$ 875 |
| 31 | 1 1/2" Meter | \$ 395 \$ 321 \$ 716 | \$ 675 \$ 500 \$ 1,175 |
| 32 | 2" Meter | \$ 727 \$ 845 \$ 1,572 | \$ 1,000 \$ 1,500 \$ 2,500 |
| 34 | 3" Meter | \$ 952 \$ 1,448 \$ 2,400 | \$ 1,300 \$ 2,000 \$ 3,300 |
| 36 | 4" Meter | \$ 1,310 \$ 2,206 \$ 3,516 | \$ 1,800 \$ 3,500 \$ 5,300 |
| 38 | 6" Meter | \$ 2,160 \$ 4,756 \$ 6,916 | \$ 2,800 \$ 6,000 \$ 8,800 |
| 42 | | | |
| 43 | All advances and/or contributions are to include labor, materials and parts, overheads and all applicable taxes, | | |
| 44 | including gross-up taxes for Federal and State taxes, if applicable. | | |
| 45 | | | |
| 46 | All items billed at cost shall include labor, materials and parts, overheads and all applicable taxes. | | |
| 47 | | | |
| 48 | n/t - no tariff | | |
| 49 | | | |

| Line No. | Description | Average Number Customers | Average Consumption | Revenues | | Proposed | |
|-------------|------------------------------|--------------------------------|------------------------|-------------------|-------------------|--------------------|---------------|
| | | | | Present Rates | Proposed Rates | Increase Amount | Increase % |
| 1 | | | | | | | |
| 2 | <u>Metered Water Revenue</u> | | | | | | |
| 3 | R1 - 5/8" x 3/4" Meter | 85 | 6,411 | \$ 64,502 | \$ 99,349 | \$ 34,847 | 54.03% |
| 4 | R2 - 3/4" Meter | - | - | - | - | - | - |
| 6 | R3 - 1" Meter | 34 | 6,496 | 44,269 | 66,338 | 22,069 | 49.85% |
| 7 | R4 - 1.5" Meter | - | - | - | - | - | - |
| 8 | R5 - 2" Meter | 1 | 41,200 | 5,965 | 8,942 | 2,977 | 49.92% |
| 9 | R6 - 3" Meter | - | - | - | - | - | - |
| 10 | R7 - 4" Meter | - | - | - | - | - | - |
| 11 | R8 - 6" Meter | - | - | - | - | - | - |
| 12 | Hydrant Meter | | | | | | |
| 13 | | | | | | | |
| 14 | <u>Metered Water Revenue</u> | | | | | | |
| 15 | All Customers | 120 | 81,126 | 114,735 | 174,629 | 59,894 | 52.20% |
| 16 | | | | | | | |
| 17 | Other Water Revenue | | | \$ 3,174 | \$ 3,174 | - | 0.00% |
| 18 | | | | | | | |
| 19 | Total | <u>120</u> | | <u>\$ 117,910</u> | <u>\$ 177,804</u> | <u>\$ 59,894</u> | <u>50.80%</u> |
| 20 | | | | | | | |

Supplemental Schedule
Breakdown of Metered Water Revenue at Current Rates
By Rate Components

| | | Revenue at Current Rates | | | | | |
|------|------------------------|--------------------------|-----------|-----------|-----------|---------|---------|
| Line | | Base | 1st | 2nd | 3rd | Total | |
| No. | Description | Charge | Tier | Tier | Tier | Revenue | |
| 1 | | | | | | | |
| 2 | R1 - 5/8" x 3/4" Meter | \$ 25,600 | \$ 13,442 | \$ 11,498 | \$ 13,962 | \$ | 64,502 |
| 3 | R2 - 3/4" Meter | - | - | - | - | | - |
| 4 | R3 - 1" Meter | 25,750 | - | 13,322 | 5,197 | | 44,269 |
| 5 | R4 - 1.5" Meter | - | - | - | - | | - |
| 6 | R5 - 2" Meter | 2,400 | - | 1,731 | 1,834 | | 5,965 |
| 7 | R6 - 3" Meter | - | - | - | - | | - |
| 8 | R7 - 4" Meter | | | | | | |
| 9 | R8 - 6" Meter | - | - | - | - | | - |
| 10 | R9 - 8" Meter | - | - | - | - | | - |
| 11 | Hydrant Meter | | | | | | - |
| 12 | | | | | | | |
| 13 | Total Revenue | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ | 114,735 |
| 14 | | | | | | | |
| 15 | Percentage of Total | 46.85% | 11.72% | 23.14% | 18.30% | | 100.00% |
| 16 | | | | | | | |

Supplemental Schedule
Breakdown of Metered Water Revenue at Proposed Rates
By Rate Components

| | | Revenue at Proposed Rates | | | | | |
|----------|-----------------------------|---------------------------|-----------|-----------|-----------|---------------|--|
| Line No. | Description | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue | |
| 1 | | | | | | | |
| 2 | R1 - 5/8" x 3/4" Meter | \$ 38,707 | \$ 16,364 | \$ 23,246 | \$ 21,031 | \$ 99,349 | |
| 3 | R2 - 3/4" Meter | - | - | - | - | - | |
| 4 | R3 - 1" Meter | 38,934 | - | 22,676 | 4,729 | 66,338 | |
| 5 | R4 - 1.5" Meter | - | - | - | - | - | |
| 6 | R5 - 2" Meter | 3,629 | - | 2,907 | 2,406 | 8,942 | |
| 7 | R6 - 3" Meter | - | - | - | - | - | |
| 8 | R7 - 4" Meter | | | | | | |
| 9 | R8 - 6" Meter | - | - | - | - | - | |
| 10 | R9 - 8" Meter | - | - | - | - | - | |
| 11 | Hydrant Meter | | | | | - | |
| 12 | | | | | | | |
| 13 | Total Revenue | \$ 81,270 | \$ 16,364 | \$ 48,829 | \$ 28,166 | \$ 174,629 | |
| 14 | | | | | | | |
| 15 | Percentage of Total Revenue | 46.54% | 9.37% | 27.96% | 16.13% | 100.00% | |
| 16 | | | | | | | |
| 17 | Percentage Increase by Tier | 51.20% | 21.74% | 83.91% | 34.17% | 52.20% | |
| 18 | | | | | | | |

Supplemental Schedule
Metered Water Revenue at Proposed Rates
Analysis of Increases by Rate Tier

| Line No. | | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue |
|----------|-------------------------------------|--------------|-------------|----------------|--------------|---------------|
| 1 | Revenue at Current Rates | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ 114,735 |
| 2 | Revenue at Company's Proposed Rates | 81,270 | 16,364 | 48,829 | 28,166 | 174,629 |
| 3 | Increase in Rates | \$ 27,520 | \$ 2,922 | \$ 22,279 | \$ 7,173 | \$ 59,894 |
| 4 | | | | | | |
| 5 | Percentage Increase by Tier | 51.2% | 21.7% | 83.9% | 34.2% | 52.2% |
| 6 | Percentage of Increase within Tier | 45.9% | 4.9% | 37.2% | 12.0% | 100.0% |
| 7 | | | | | | |
| 8 | | | | | | |
| 9 | | | | | | |
| 10 | | | | | | |
| 11 | | Base Charge | 1st Tier | 2nd Tier | 3rd Tier | Total Revenue |
| 12 | Revenue at Current Rates | \$ 53,750 | \$ 13,442 | \$ 26,550 | \$ 20,993 | \$ 114,735 |
| 13 | Revenue at Company's Proposed Rates | \$ 81,270 | \$ 16,364 | \$ 48,829 | \$ 28,166 | \$ 174,629 |
| 14 | | | | | | |
| 15 | Percentage of Total Revenue | | | | | |
| 16 | Current Rates | 46.8% | 11.7% | 23.1% # | 18.3% | 100.0% |
| 17 | Company's Proposed Rates | <u>46.5%</u> | <u>9.4%</u> | <u>28.0% #</u> | <u>16.1%</u> | <u>100.0%</u> |
| 18 | Change | -0.3% | -2.3% | 4.8% | -2.2% | 0.0% |
| 19 | | | | | | |
| 20 | | | | | | |

Meter Size: 5/8" x 3/4"
Rate Code: R1

| Rate Tiers | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|
| Tier One Breakover (M gal): | 4 | 3 |
| Tier Two Breakover (M gal): | 10 | 10 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 |

| Charges | Present Rates | Proposed Rates |
|------------------|---------------|----------------|
| Base Charge: | \$ 25.00 | \$ 37.80 |
| Tier One Rate: | \$ 4.40 | \$ 6.65 |
| Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills in Block | Average Consumption in Block | Consumption in Block | Cumulative Bills No. | % of Total | Cumulative Consumption Amount | % of Total |
|----------|-------------------|--------------------------|------------------------------|----------------------|----------------------|------------|-------------------------------|------------|
| 1 | - | 79 | | | 79 | 7.71% | - | 0.00% |
| 2 | 1 - 1,000 | 58 | 551 | 31,960 | 137 | 13.38% | 31,960 | 0.49% |
| 3 | 1,001 - 2,000 | 118 | 1,492 | 176,030 | 255 | 24.90% | 207,990 | 3.17% |
| 4 | 2,001 - 3,000 | 116 | 2,532 | 293,740 | 371 | 36.23% | 501,730 | 7.64% |
| 5 | 3,001 - 4,000 | 120 | 3,510 | 421,240 | 491 | 47.95% | 922,970 | 14.06% |
| 6 | 4,001 - 5,000 | 116 | 4,467 | 518,210 | 607 | 59.28% | 1,441,180 | 21.95% |
| 7 | 5,001 - 6,000 | 86 | 5,504 | 473,350 | 693 | 67.68% | 1,914,530 | 29.17% |
| 8 | 6,001 - 7,000 | 60 | 6,452 | 387,120 | 753 | 73.54% | 2,301,650 | 35.06% |
| 9 | 7,001 - 8,000 | 61 | 7,436 | 453,590 | 814 | 79.49% | 2,755,240 | 41.97% |
| 10 | 8,001 - 9,000 | 28 | 8,348 | 233,750 | 842 | 82.23% | 2,988,990 | 45.53% |
| 11 | 9,001 - 10,000 | 21 | 9,432 | 198,070 | 863 | 84.28% | 3,187,060 | 48.55% |
| 12 | 10,001 - 12,000 | 40 | 10,933 | 437,310 | 903 | 88.18% | 3,624,370 | 55.21% |
| 13 | 12,001 - 14,000 | 25 | 13,062 | 326,550 | 928 | 90.63% | 3,950,920 | 60.19% |
| 14 | 14,001 - 16,000 | 16 | 15,108 | 241,730 | 944 | 92.19% | 4,192,650 | 63.87% |
| 15 | 16,001 - 18,000 | 13 | 16,862 | 219,200 | 957 | 93.46% | 4,411,850 | 67.21% |
| 16 | 18,001 - 20,000 | 14 | 18,854 | 263,960 | 971 | 94.82% | 4,675,810 | 71.23% |
| 17 | 20,001 - 25,000 | 19 | 22,146 | 420,770 | 990 | 96.68% | 5,096,580 | 77.64% |
| 18 | 25,001 - 30,000 | 13 | 28,165 | 366,150 | 1,003 | 97.95% | 5,462,730 | 83.22% |
| 19 | 30,001 - 35,000 | 5 | 32,218 | 161,090 | 1,008 | 98.44% | 5,623,820 | 85.67% |
| 20 | 35,001 - 40,000 | 1 | 38,000 | 38,000 | 1,009 | 98.54% | 5,661,820 | 86.25% |
| 21 | 40,001 - 50,000 | 8 | 45,083 | 360,660 | 1,017 | 99.32% | 6,022,480 | 91.74% |
| 22 | 50,001 - 60,000 | 4 | 54,480 | 217,920 | 1,021 | 99.71% | 6,240,400 | 95.06% |
| 23 | 60,001 - 70,000 | - | - | - | 1,021 | 99.71% | 6,240,400 | 95.06% |
| 24 | 70,001 - 80,000 | 1 | 74,090 | 74,090 | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 25 | 80,001 - 90,000 | - | - | - | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 26 | 90,001 - 100,000 | - | - | - | 1,022 | 99.80% | 6,314,490 | 96.19% |
| 27 | 106,640 - 106,640 | 1 | 106,640 | 106,640 | 1,023 | 99.90% | 6,421,130 | 97.82% |
| 28 | 143,260 - 143,260 | 1 | 143,260 | 143,260 | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 29 | | | | | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 30 | | | | | 1,024 | 100.00% | 6,564,390 | 100.00% |
| 113 | | | | | | | | |
| 114 | Totals | 1,024 | | 6,564,390 | 1,024 | | 6,564,390 | |
| 115 | | | | | | | | |
| 116 | Total Bills | 1,024 | | | | | | |

| | | | | | | | | |
|-----|-------------------------------|--------------|------------------------|------------------|---------------|---------------------|------------------|------------------|
| 116 | Total Bills | <u>1,024</u> | | | Current Rates | | Proposed Rates | |
| 117 | | | | | Units | Revenue | Units | Revenue |
| 118 | | | Base Charge | 1,024 | \$ | 25,600 | 1,024 | \$ 38,707 |
| 119 | Average Number of Customers | <u>85</u> | | | | | | |
| 120 | | | <u>Usage (gallons)</u> | | | | | |
| 121 | Average Consumption (gallons) | <u>6,411</u> | Tier One | 3,054,970 | \$ | 13,442 | 2,460,730 | \$ 16,364 |
| 122 | | | Tier Two | 1,742,090 | | 11,498 | 2,336,330 | 23,246 |
| 123 | Median Consumption (gallons) | <u>3,684</u> | Tier Three | <u>1,767,330</u> | | 13,962 | <u>1,767,330</u> | 21,031 |
| 124 | | | Usage Totals | 6,564,390 | | | 6,564,390 | |
| 125 | | | Revenue Totals | | | <u>\$ 64,501.57</u> | | <u>\$ 99,349</u> |
| 126 | | | | | | | | |

Meter Size: 5/8" x 3/4"
Rate Code: R1

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | <u>Present Rates:</u> | - | \$ 25.00 | \$ 37.80 | \$ 12.80 | 51.20% |
| 2 | Base Charge: | 1,000 | \$ 29.40 | \$ 44.45 | \$ 15.05 | 51.19% |
| 3 | | 2,000 | \$ 33.80 | \$ 51.10 | \$ 17.30 | 51.18% |
| 4 | | 3,000 | \$ 38.20 | \$ 57.75 | \$ 19.55 | 51.18% |
| 5 | Tier One Rate: | 4,000 | \$ 42.60 | \$ 67.70 | \$ 25.10 | 58.92% |
| 6 | Tier Two Rate: | 5,000 | \$ 49.20 | \$ 77.65 | \$ 28.45 | 57.83% |
| 7 | Tier Three Rate: | 6,000 | \$ 55.80 | \$ 87.60 | \$ 31.80 | 56.99% |
| 8 | | 7,000 | \$ 62.40 | \$ 97.55 | \$ 35.15 | 56.33% |
| 9 | Tier One Breakover (M gal): | 8,000 | \$ 69.00 | \$ 107.50 | \$ 38.50 | 55.80% |
| 10 | Tier Two Breakover (M gal): | 9,000 | \$ 75.60 | \$ 117.45 | \$ 41.85 | 55.36% |
| 11 | Tier Three Breakover (M gal): | 10,000 | \$ 82.20 | \$ 127.40 | \$ 45.20 | 54.99% |
| 12 | | 12,000 | \$ 98.00 | \$ 151.20 | \$ 53.20 | 54.29% |
| 13 | | 14,000 | \$ 113.80 | \$ 175.00 | \$ 61.20 | 53.78% |
| 14 | <u>Proposed Rates:</u> | 16,000 | \$ 129.60 | \$ 198.80 | \$ 69.20 | 53.40% |
| 15 | Base Charge: | 18,000 | \$ 145.40 | \$ 222.60 | \$ 77.20 | 53.09% |
| 16 | | 20,000 | \$ 161.20 | \$ 246.40 | \$ 85.20 | 52.85% |
| 17 | | 25,000 | \$ 200.70 | \$ 305.90 | \$ 105.20 | 52.42% |
| 18 | Tier One Rate: | 30,000 | \$ 240.20 | \$ 365.40 | \$ 125.20 | 52.12% |
| 19 | Tier Two Rate: | 35,000 | \$ 279.70 | \$ 424.90 | \$ 145.20 | 51.91% |
| 20 | Tier Three Rate: | 40,000 | \$ 319.20 | \$ 484.40 | \$ 165.20 | 51.75% |
| 21 | | 45,000 | \$ 358.70 | \$ 543.90 | \$ 185.20 | 51.63% |
| 22 | Tier One Breakover (M gal): | 50,000 | \$ 398.20 | \$ 603.40 | \$ 205.20 | 51.53% |
| 23 | Tier Two Breakover (M gal): | 60,000 | \$ 477.20 | \$ 722.40 | \$ 245.20 | 51.38% |
| 24 | Tier Three Breakover (M gal): | 70,000 | \$ 556.20 | \$ 841.40 | \$ 285.20 | 51.28% |
| 25 | | 80,000 | \$ 635.20 | \$ 960.40 | \$ 325.20 | 51.20% |
| 26 | | 90,000 | \$ 714.20 | \$ 1,079.40 | \$ 365.20 | 51.13% |
| 27 | | 100,000 | \$ 793.20 | \$ 1,198.40 | \$ 405.20 | 51.08% |
| 28 | | | | | | |
| 29 | | Average Usage | | | | |
| 30 | | 6,411 | \$ 58.51 | \$ 91.69 | \$ 33.18 | 56.71% |
| 31 | | Median Usage | | | | |
| 32 | | 3,684 | \$ 41.21 | \$ 64.55 | \$ 23.34 | 56.64% |
| 33 | | | | | | |
| 34 | | | | | | |

Meter Size: 1"
Rate Code: R3

| Rate Tiers | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|
| Tier One Breakover (M gal): | - | - |
| Tier Two Breakover (M gal): | 10 | 15 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 |

| Charges | Present Rates | Proposed Rates |
|------------------|---------------|----------------|
| Base Charge: | \$ 62.50 | \$ 94.50 |
| Tier One Rate: | \$ - | \$ - |
| Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills by Block | Average Consumption in Block 85% | Consumption by Blocks | Cumulative Bills No. | % of Total | Cumulative Consumption Amount | % of Total |
|----------|------------------|--------------------------|-------------------------------------|-----------------------|----------------------|------------|-------------------------------|------------|
| 1 | - | 25 | | | 25 | 6.07% | - | 0.00% |
| 2 | 1 - 1,000 | 22 | 350 | 7,700 | 47 | 11.41% | 7,700 | 0.29% |
| 3 | 1,001 - 2,000 | 33 | 1,517 | 50,050 | 80 | 19.42% | 57,750 | 2.16% |
| 4 | 2,001 - 3,000 | 54 | 2,618 | 141,360 | 134 | 32.52% | 199,110 | 7.44% |
| 5 | 3,001 - 4,000 | 62 | 3,457 | 214,360 | 196 | 47.57% | 413,470 | 15.45% |
| 6 | 4,001 - 5,000 | 44 | 4,488 | 197,470 | 240 | 58.25% | 610,940 | 22.83% |
| 7 | 5,001 - 6,000 | 35 | 5,541 | 193,933 | 275 | 66.75% | 804,873 | 30.07% |
| 8 | 6,001 - 7,000 | 22 | 6,486 | 142,687 | 297 | 72.09% | 947,560 | 35.41% |
| 9 | 7,001 - 8,000 | 23 | 7,482 | 172,080 | 320 | 77.67% | 1,119,640 | 41.84% |
| 10 | 8,001 - 9,000 | 9 | 8,453 | 76,080 | 329 | 79.85% | 1,195,720 | 44.68% |
| 11 | 9,001 - 10,000 | 13 | 9,443 | 122,760 | 342 | 83.01% | 1,318,480 | 49.26% |
| 12 | 10,001 - 12,000 | 15 | 11,138 | 167,070 | 357 | 86.65% | 1,485,550 | 55.51% |
| 13 | 12,001 - 14,000 | 14 | 12,743 | 178,400 | 371 | 90.05% | 1,663,950 | 62.17% |
| 14 | 14,001 - 16,000 | 8 | 15,060 | 120,480 | 379 | 91.99% | 1,784,430 | 66.67% |
| 15 | 16,001 - 18,000 | 5 | 16,520 | 82,600 | 384 | 93.20% | 1,867,030 | 69.76% |
| 16 | 18,001 - 20,000 | 3 | 19,097 | 57,290 | 387 | 93.93% | 1,924,320 | 71.90% |
| 17 | 20,001 - 25,000 | 10 | 22,867 | 228,670 | 397 | 96.36% | 2,152,990 | 80.45% |
| 18 | 25,001 - 30,000 | 5 | 27,902 | 139,510 | 402 | 97.57% | 2,292,500 | 85.66% |
| 19 | 30,001 - 35,000 | 4 | 32,588 | 130,350 | 406 | 98.54% | 2,422,850 | 90.53% |
| 20 | 35,001 - 40,000 | 2 | 35,980 | 71,960 | 408 | 99.03% | 2,494,810 | 93.22% |
| 21 | 40,001 - 50,000 | 4 | 45,378 | 181,510 | 412 | 100.00% | 2,676,320 | 100.00% |
| 22 | 50,001 - 60,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 23 | 60,001 - 70,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 24 | 70,001 - 80,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 25 | 80,001 - 90,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |
| 26 | 90,001 - 100,000 | - | - | - | 412 | 100.00% | 2,676,320 | 100.00% |

| | | | | | | | | |
|-----|--------|-----|--|-----------|-----|--|-----------|--|
| 163 | | | | | | | | |
| 164 | Totals | 412 | | 2,676,320 | 412 | | 2,676,320 | |
| 165 | | | | | | | | |

| | | | | | | | | |
|-----|-------------------------------|-------|--|--|--|--|--|--|
| 166 | Total Bills | 412 | | | | | | |
| 167 | | | | | | | | |
| 168 | | | | | | | | |
| 169 | Average Number of Customers | 34 | | | | | | |
| 170 | | | | | | | | |
| 171 | Average Consumption (gallons) | 6,496 | | | | | | |
| 172 | | | | | | | | |
| 173 | Median Consumption (gallons) | 3,692 | | | | | | |
| 174 | | | | | | | | |
| 175 | | | | | | | | |
| 176 | | | | | | | | |

Meter Size: 1"
Rate Code: R3

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | Present Rates: | - | \$ 62.50 | \$ 94.50 | \$ 32.00 | 51.20% |
| 2 | Base Charge: | 1,000 | \$ 69.10 | \$ 104.45 | \$ 35.35 | 51.16% |
| 3 | | 2,000 | \$ 75.70 | \$ 114.40 | \$ 38.70 | 51.12% |
| 4 | | 3,000 | \$ 82.30 | \$ 124.35 | \$ 42.05 | 51.09% |
| 5 | Tier One Rate: | 4,000 | \$ 88.90 | \$ 134.30 | \$ 45.40 | 51.07% |
| 6 | Tier Two Rate: | 5,000 | \$ 95.50 | \$ 144.25 | \$ 48.75 | 51.05% |
| 7 | Tier Three Rate: | 6,000 | \$ 102.10 | \$ 154.20 | \$ 52.10 | 51.03% |
| 8 | | 7,000 | \$ 108.70 | \$ 164.15 | \$ 55.45 | 51.01% |
| 9 | Tier One Breakover (M gal): | 8,000 | \$ 115.30 | \$ 174.10 | \$ 58.80 | 51.00% |
| 10 | Tier Two Breakover (M gal): | 9,000 | \$ 121.90 | \$ 184.05 | \$ 62.15 | 50.98% |
| 11 | Tier Three Breakover (M gal): | 10,000 | \$ 128.50 | \$ 194.00 | \$ 65.50 | 50.97% |
| 12 | | 12,000 | \$ 144.30 | \$ 213.90 | \$ 69.60 | 48.23% |
| 13 | | 14,000 | \$ 160.10 | \$ 233.80 | \$ 73.70 | 46.03% |
| 14 | Proposed Rates: | 16,000 | \$ 175.90 | \$ 255.65 | \$ 79.75 | 45.34% |
| 15 | Base Charge: | 18,000 | \$ 191.70 | \$ 279.45 | \$ 87.75 | 45.77% |
| 16 | | 20,000 | \$ 207.50 | \$ 303.25 | \$ 95.75 | 46.14% |
| 17 | | 25,000 | \$ 247.00 | \$ 362.75 | \$ 115.75 | 46.86% |
| 18 | Tier One Rate: | 30,000 | \$ 286.50 | \$ 422.25 | \$ 135.75 | 47.38% |
| 19 | Tier Two Rate: | 35,000 | \$ 326.00 | \$ 481.75 | \$ 155.75 | 47.78% |
| 20 | Tier Three Rate: | 40,000 | \$ 365.50 | \$ 541.25 | \$ 175.75 | 48.08% |
| 21 | | 45,000 | \$ 405.00 | \$ 600.75 | \$ 195.75 | 48.33% |
| 22 | Tier One Breakover (M gal): | 50,000 | \$ 444.50 | \$ 660.25 | \$ 215.75 | 48.54% |
| 23 | Tier Two Breakover (M gal): | 60,000 | \$ 523.50 | \$ 779.25 | \$ 255.75 | 48.85% |
| 24 | Tier Three Breakover (M gal): | 70,000 | \$ 602.50 | \$ 898.25 | \$ 295.75 | 49.09% |
| 25 | | 80,000 | \$ 681.50 | \$ 1,017.25 | \$ 335.75 | 49.27% |
| 26 | | 90,000 | \$ 760.50 | \$ 1,136.25 | \$ 375.75 | 49.41% |
| 27 | | 100,000 | \$ 839.50 | \$ 1,255.25 | \$ 415.75 | 49.52% |
| 28 | | | | | | |
| 29 | | Average Usage | | | | |
| 30 | | 6,496 | \$ 105.37 | \$ 159.14 | \$ 53.77 | 51.03% |

Meter Size: 2"
Rate Code: R5

| Rate Tiers | Present Rates | Proposed Rates | Charges | Present Rates | Proposed Rates |
|-------------------------------|---------------|----------------|------------------|---------------|----------------|
| | | | Base Charge: | \$ 200.00 | \$ 302.40 |
| Tier One Breakover (M gal): | - | - | Tier One Rate: | \$ - | \$ - |
| Tier Two Breakover (M gal): | 40 | 50 | Tier Two Rate: | \$ 6.60 | \$ 9.95 |
| Tier Three Breakover (M gal): | 999,999 | 999,999 | Tier Three Rate: | \$ 7.90 | \$ 11.90 |

| Line No. | Block | Number of Bills by Block | Average Consumption in Block | Consumption by Blocks | Cumulative Bills No. | % of Total | Cumulative Consumption Amount | % of Total |
|----------|---------|--------------------------|------------------------------|-----------------------|----------------------|------------|-------------------------------|------------|
| 1 | - | - | 1 | - | 1 | 8.33% | - | 0.00% |
| 2 | 1 | - | 1,000 | - | 1 | 8.33% | - | 0.00% |
| 3 | 1,001 | - | 2,000 | - | 1 | 8.33% | - | 0.00% |
| 4 | 2,001 | - | 3,000 | - | 1 | 8.33% | - | 0.00% |
| 5 | 3,001 | - | 4,000 | 1 | 2 | 16.67% | 3,200 | 0.65% |
| 6 | 4,001 | - | 5,000 | 1 | 3 | 25.00% | 7,600 | 1.54% |
| 7 | 5,001 | - | 6,000 | - | 3 | 25.00% | 7,600 | 1.54% |
| 8 | 6,001 | - | 7,000 | 1 | 4 | 33.33% | 14,100 | 2.85% |
| 9 | 7,001 | - | 8,000 | 1 | 5 | 41.67% | 21,900 | 4.43% |
| 10 | 8,001 | - | 9,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 11 | 9,001 | - | 10,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 12 | 10,001 | - | 12,000 | - | 5 | 41.67% | 21,900 | 4.43% |
| 13 | 12,001 | - | 14,000 | 1 | 6 | 50.00% | 35,000 | 7.08% |
| 14 | 14,001 | - | 16,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 15 | 16,001 | - | 18,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 16 | 18,001 | - | 20,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 17 | 20,001 | - | 25,000 | - | 6 | 50.00% | 35,000 | 7.08% |
| 18 | 25,001 | - | 30,000 | 1 | 7 | 58.33% | 63,700 | 12.88% |
| 19 | 30,001 | - | 35,000 | - | 7 | 58.33% | 63,700 | 12.88% |
| 20 | 35,001 | - | 40,000 | 2 | 9 | 75.00% | 142,200 | 28.76% |
| 21 | 40,001 | - | 50,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 22 | 50,001 | - | 60,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 23 | 60,001 | - | 70,000 | - | 9 | 75.00% | 142,200 | 28.76% |
| 24 | 70,001 | - | 80,000 | 1 | 10 | 83.33% | 222,000 | 44.90% |
| 25 | 80,001 | - | 90,000 | - | 10 | 83.33% | 222,000 | 44.90% |
| 26 | 90,001 | - | 100,000 | - | 10 | 83.33% | 222,000 | 44.90% |
| 27 | 123,300 | - | 123,300 | 1 | 11 | 91.67% | 345,300 | 69.84% |
| 28 | 149,100 | - | 149,100 | 1 | 12 | 100.00% | 494,400 | 100.00% |

| | | | | | | | | |
|-----|--------|----|--|---------|----|--|---------|--|
| 366 | | | | | | | | |
| 367 | Totals | 12 | | 494,400 | 12 | | 494,400 | |
| 368 | | | | | | | | |

| | | | | | | | | |
|-----|-------------------------------|--------|--|--|--|--|--|--|
| 369 | Total Bills | 12 | | | | | | |
| 370 | | | | | | | | |
| 371 | | | | | | | | |
| 372 | Average Number of Customers | 1 | | | | | | |
| 373 | | | | | | | | |
| 374 | Average Consumption (gallons) | 41,200 | | | | | | |
| 375 | | | | | | | | |
| 376 | Median Consumption (gallons) | 13,100 | | | | | | |
| 377 | | | | | | | | |
| 378 | | | | | | | | |
| 379 | | | | | | | | |

Meter Size: 2"
Rate Code: R5

| Line No. | Rate Schedules | Usage | Present Bill | Proposed Bill | Dollar Increase | Percent Increase |
|----------|-------------------------------|---------------|--------------|---------------|-----------------|------------------|
| 1 | <u>Present Rates:</u> | - | \$ 200.00 | \$ 302.40 | \$ 102.40 | 51.20% |
| 2 | Base Charge: | 1,000 | \$ 206.60 | \$ 312.35 | \$ 105.75 | 51.19% |
| 3 | | 2,000 | \$ 213.20 | \$ 322.30 | \$ 109.10 | 51.17% |
| 4 | | 3,000 | \$ 219.80 | \$ 332.25 | \$ 112.45 | 51.16% |
| 5 | Tier One Rate: | 4,000 | \$ 226.40 | \$ 342.20 | \$ 115.80 | 51.15% |
| 6 | Tier Two Rate: | 5,000 | \$ 233.00 | \$ 352.15 | \$ 119.15 | 51.14% |
| 7 | Tier Three Rate: | 6,000 | \$ 239.60 | \$ 362.10 | \$ 122.50 | 51.13% |
| 8 | | 7,000 | \$ 246.20 | \$ 372.05 | \$ 125.85 | 51.12% |
| 9 | Tier One Breakover (M gal): | 8,000 | \$ 252.80 | \$ 382.00 | \$ 129.20 | 51.11% |
| 10 | Tier Two Breakover (M gal): | 9,000 | \$ 259.40 | \$ 391.95 | \$ 132.55 | 51.10% |
| 11 | Tier Three Breakover (M gal): | 10,000 | \$ 266.00 | \$ 401.90 | \$ 135.90 | 51.09% |
| 12 | | 12,000 | \$ 279.20 | \$ 421.80 | \$ 142.60 | 51.07% |
| 13 | | 14,000 | \$ 292.40 | \$ 441.70 | \$ 149.30 | 51.06% |
| 14 | <u>Proposed Rates:</u> | 16,000 | \$ 305.60 | \$ 461.60 | \$ 156.00 | 51.05% |
| 15 | Base Charge: | 18,000 | \$ 318.80 | \$ 481.50 | \$ 162.70 | 51.04% |
| 16 | | 20,000 | \$ 332.00 | \$ 501.40 | \$ 169.40 | 51.02% |
| 17 | | 25,000 | \$ 365.00 | \$ 551.15 | \$ 186.15 | 51.00% |
| 18 | Tier One Rate: | 30,000 | \$ 398.00 | \$ 600.90 | \$ 202.90 | 50.98% |
| 19 | Tier Two Rate: | 35,000 | \$ 431.00 | \$ 650.65 | \$ 219.65 | 50.96% |
| 20 | Tier Three Rate: | 40,000 | \$ 464.00 | \$ 700.40 | \$ 236.40 | 50.95% |
| 21 | | 45,000 | \$ 503.50 | \$ 750.15 | \$ 246.65 | 48.99% |
| 22 | Tier One Breakover (M gal): | 50,000 | \$ 543.00 | \$ 799.90 | \$ 256.90 | 47.31% |
| 23 | Tier Two Breakover (M gal): | 60,000 | \$ 622.00 | \$ 918.90 | \$ 296.90 | 47.73% |
| 24 | Tier Three Breakover (M gal): | 70,000 | \$ 701.00 | \$ 1,037.90 | \$ 336.90 | 48.06% |
| 25 | | 80,000 | \$ 780.00 | \$ 1,156.90 | \$ 376.90 | 48.32% |
| 26 | | 90,000 | \$ 859.00 | \$ 1,275.90 | \$ 416.90 | 48.53% |
| 27 | | 100,000 | \$ 938.00 | \$ 1,394.90 | \$ 456.90 | 48.71% |
| 28 | | | | | | |
| 29 | | | | | | |
| 30 | | Average Usage | | | | |
| 31 | | 41,200 | \$ 473.48 | \$ 712.34 | \$ 238.86 | 50.45% |
| 32 | | Median Usage | | | | |
| | | 13,100 | \$ 286.46 | \$ 432.75 | \$ 146.29 | 51.07% |

Matrix of Contested Issues
Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Positions at Supplemental Hearing

EXHIBIT
A-8
ADMITTED

| Issue | Granite Position | Staff Position | Difference | Comments |
|---|------------------|----------------|-------------|--|
| Summary | | | | |
| Revenue Requirement | | | | |
| Total | \$ 177,563 | \$ 179,504 | \$ 1,941 | |
| Increase | \$ 60,243 | \$ 62,184 | \$ 1,941 | Granite 51.35% - Staff 53.00% |
| Rate Base | \$ 586,318 | \$ 529,152 | \$ (57,166) | |
| Adjusted Operating Income | | | | |
| Adjusted Test Year Revenue | \$ 117,320 | \$ 117,320 | \$ - | |
| Adjusted Test year Expenses | \$ 120,060 | \$ 126,164 | \$ 6,104 | |
| Adjusted Operating Income | \$ (2,740) | \$ (8,844) | \$ (6,104) | |
| Rate Base Contested Issues | | | | |
| Total Rate Base | \$ 586,318 | \$ 529,152 | \$ (57,166) | |
| Staff Rate Base Adj. No. 1 - Post-Test Year Plant | | | | |
| Well No. 6 Uncontested Costs | \$ 70,697 | \$ 70,697 | \$ 0 | |
| Well No. 6 Purchase / Easement Tank No. 3 | \$ 75,000 | \$ 29,432 | \$ (45,568) | |
| Well No. 4 | \$ 102,223 | \$ 102,223 | \$ - | |
| Rate Base | \$ 4,769 | \$ 4,769 | \$ - | |
| Granite Mountain recommends that the actual amount paid for Well No. 6 of \$75,000 be included in rate base. | \$ 252,688 | \$ 207,120 | \$ (45,568) | |
| Staff Rate Base Adj. No. 3 - Unsupported Plant | | | | |
| CIAC | \$ - | \$ 9,643 | \$ 9,643 | |
| Amort of CIAC | \$ - | \$ (309) | \$ (309) | |
| Rate Base | \$ - | \$ (9,334) | \$ (9,334) | |
| Granite Mountain opposes Staff Adjustment No. 1 because there is no need to penalize the company for lost accounting records as a result of a fire. | | | | |
| Staff Rate Base Adj. No. 5 - Accumulated Depreciation | | | | |
| Company has deducted \$4,680 from accumulated depreciation to reflect a post-test year retirement. | \$ (533,361) | \$ (538,043) | \$ (4,682) | |
| Staff Rate Base Adj. No. 8 - Cash Working Capital | \$ 7,932 | \$ 10,349 | \$ 2,417 | Parties are in agreement regarding methodology. Difference is the result of expense recommendations. |

Matrix of Contested Issues
Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Positions at Supplemental Hearing

| Issue | Granite Position | Staff Position | Difference | Comments |
|--|--|----------------|------------|---|
| Income Statement - Contested Expense Issues | | | | |
| Adjusted Test Year Expenses | \$ 120,060 | \$ 126,164 | \$ 6,104 | |
| Allocation of Common Costs | \$ 80,793 | \$ 94,185 | \$ 13,392 | |
| Officer Salary | \$ 529 | \$ (2,823) | \$ (3,352) | Impact after allocation shown. |
| | \$ 81,322 | \$ 91,362 | \$ 10,040 | |
| | The Company's recommendation is an allocation of 80.5% to Chino and 19.5% to Granite. This recommendation shifts a significant \$20,556 in costs to Granite, addressing Staff's cost allocation concerns, while still providing both Chino's and Granite a reasonable opportunity to recover the common costs related to the operation of both companies. Staff's revised allocation also does not reallocate costs back to Chino Meadows. | | | |
| Officer Salary | The Company believes this deduction is unnecessary because the salary paid to Mr. Levie of \$37,700 already includes a deduction for Mr. Levie's time away from the office and the resulting salary allocation to Chino for Mr. Levie is a modest \$26,587, reasonable for a CEO. | | | |
| Depreciation Expense | \$ 33,720 | \$ 32,434 | \$ (1,286) | |
| | The Company and Staff propose differing levels of depreciation expense due to i) differing levels of post-test year plant, ii) differing levels of CIAC (Rate Base Adjustment No. 3) and related CIAC amortization and iii) an overstatement of fully depreciated plant by Staff for pumping equipment by \$4,680 related to post-test year retirement. | | | |
| | Should Staff RB Adj. No. 3 be adopted, the Company believes that the added CIAC amortization complexity is unnecessary and will lead to confusion and disagreement regarding future CIAC amortization balances. | | | |
| Income Tax Expense | \$ (385) | \$ (3,037) | \$ (2,652) | Difference is due to i) Staff's use of corporate income tax rates while the Company uses personal income tax rates, ii) differing expense recommendations, and iii) Staff's use of synchronized interest deduction. |

Matrix of Contested Issues
Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Positions at Supplemental Hearing

| Issue | Granite Position | Staff Position | Difference | Comments |
|--------------------------------------|---|--|------------|----------|
| Rate Design | | | | |
| Revenue by Tier | Staff's rate design will promote revenue instability and impair the Company's ability to collect its authorized revenue. As compared to the Company's rate design, Staff's rate design decreases the percentage of revenue collected in the base charge and the first two rate tiers and shifts that revenue to third tier rates. | | | |
| Miscellaneous Recommendations | | | | |
| Code of Conduct | Granite Mountain is willing to develop a code of conduct, but believes it should only apply to regulated affiliates. Other specific disagreements are covered in Mr. Jones Rebuttal Testimony. | | | |
| Report of Corporate Cost Allocations | Granite Mountain believes that an annual reporting requirement is unduly burdensome for a small water utility. | | | |
| Interim Manager | Granite Mountain believes that such appointment should, consistent with due process, require notice and a hearing. | Staff asks for authority, without further action by the Commission, to appoint an interim manager if the Company violates the adopted Code of Affiliate Conduct. | | |
| Assessment of Penalties | Granite Mountain is in compliance with Decision No. 71869 and should not be penalized. The Code of Affiliate Conduct will insure that the Company continue its current practice of collection all amounts due from affiliates in a timely manner. | | | |

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER COMPANY,)
INC. FOR APPROVAL OF A RATE INCREASE)
_____)

DOCKET NO. W-02467A-14-0230

DIRECT

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

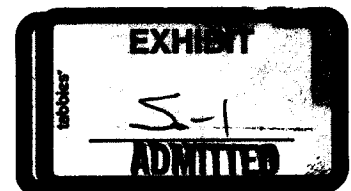


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| CONCLUSIONS AND RECOMMENDATIONS..... | 4 |

EXHIBITS

| | |
|---|-------|
| Engineering Report for Granite Mountain Water Company | DMH-1 |
|---|-------|

INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. By whom and in what position are you employed?

A. I am employed by the Arizona Corporation Commission ("Commission" or "ACC") as a Utilities Engineer - Water/Wastewater in the Utilities Division.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since January 1998.

Q. What are your responsibilities as a Utilities Engineer - Water/Wastewater?

A. My main responsibilities are to inspect, investigate and evaluate water and wastewater systems. This includes obtaining data, preparing reconstruction cost new and/or original cost studies, investigative reports, interpreting rules and regulations, and to suggest corrective action and provide technical recommendations on water and wastewater system deficiencies. I also provide written and oral testimony in rate cases and other cases before the Commission.

Q. How many companies have you analyzed for the Utilities Division?

A. I have analyzed more than 90 companies fulfilling these various responsibilities for Commission Utilities Division Staff ("Staff").

Q. Have you previously testified before this Commission?

A. Yes, I have testified on numerous occasions before this Commission.

1 **Q. What is your educational background?**

2 A. I graduated from the University of Alabama in Birmingham in 1987 with a Bachelor of
3 Science degree in Civil Engineering.

4
5 **Q. Briefly describe your pertinent work experience.**

6 A. Before my employment with the Commission, I was an Environmental Engineer for the
7 Arizona Department of Environmental Quality ("ADEQ") for ten years. Prior to that time, I
8 was an Engineering Technician with C. F. Hains, Hydrology in Northport, Alabama for
9 approximately five years.

10
11 **Q. Please state your professional membership, registrations, and licenses.**

12 A. I have been a registered Civil Engineer in Arizona since 1990. I am a member of the
13 American Society of Civil Engineering, American Water Works Association and Arizona
14 Water Association.

15
16 **PURPOSE OF TESTIMONY**

17 **Q. What was your assignment in this rate proceeding?**

18 A. My assignment was to provide Staff's engineering evaluations for the subject Granite
19 Mountain Water Company, Inc. ("Granite Mountain") rate proceeding.

20
21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. The purpose of my testimony is to present the findings of Staff's engineering evaluation of
23 the operations for Granite Mountain Water Company, Inc. ("Granite Mountain" of "the
24 Company"). The findings are contained in the Engineering Report that I have prepared for
25 this proceeding. The report is included as Exhibit DMH-1 in this pre-filed testimony.

26

ENGINEERING REPORT

Q. Would you briefly describe what was involved in preparing your Engineering Report for this rate proceeding?

A. After reviewing the application, I physically inspected the Granite Mountain water system to evaluate the operation and to determine if any plant items were not used and useful. I contacted ADEQ to determine if the water system was in compliance with the Safe Drinking Water Act. I also contacted the Arizona Department of Water Resources ("ADWR") to determine if the water systems were in compliance with ADWR's requirements governing water providers and/or community water systems. After I obtained information from Granite Mountain regarding water plant improvements, permits, chemical testing expenses, water usage data, post-test year projects, and tariff modifications, I analyzed that information. Based on all the above, I prepared the attached Engineering Report for Granite Mountain.

Q. Please describe the information contained in your Engineering Report for Granite Mountain.

A. The Report is divided into three general sections: 1) *Executive Summary*, 2) *Engineering Report Discussion*, and 3) *Engineering Report Exhibits*. The *Engineering Report Discussion* is further divided into eleven subsections: A) Purpose of Report; B) Location of System; C) Description of System; D) Water Usage; E) Growth Projection; F) ADEQ Compliance; G) ADWR Compliance; H) ACC compliance; I) Water Testing Expenses; J) Depreciation Rates; and K) Other Issues. These subsections provide information about the water plant serving Granite Mountain.

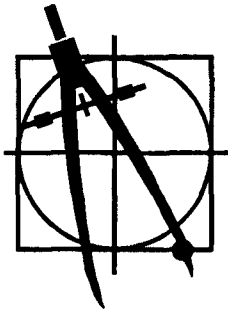
1 **CONCLUSIONS AND RECOMMENDATIONS**

2 **Q. What are Staff's conclusions and recommendations regarding the operations of the**
3 **water and wastewater systems?**

4 **A. Staff's conclusions and recommendations for Granite Mountain are contained in the**
5 **Executive Summary of the attached Engineering Report.**

6
7 **Q. Does this conclude your direct testimony?**

8 **A. Yes, it does.**



Engineering Report
Granite Mountain Water
Company, Inc.
By Dorothy Hains, P. E.
Docket Nos. W-02467A-14-0230
(Rates)

July 15, 2015

EXECUTIVE SUMMARY

Recommendations:

1. Arizona Corporation Commission ("ACC" or "Commission") Utilities Division Staff ("Staff") recommends that Granite Mountain Water Company ("Granite Mountain" or "the Company") use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6. (See §J and Exhibit 6 for a discussion and a tabulation of the recommended rates.)
2. Staff recommends approval of the meter and service line installation charges listed in Table 5 under the columns labeled "Company Proposed/Staff Recommended". (See §K of report for discussion and details.)
3. Staff recommends that annual water testing costs of \$1,850 be used for purposes of this rate proceeding. (See §I and Table 4 for discussion and details.)
4. Staff recommends that Granite Mountain file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application. (See §K of report for discussion and details.)

5. Staff recommends that Granite Mountain file a copy of the Approval of Construction ("AOC") for the new 50,000 gallon storage tank with Docket Control as a compliance item in this docket within 90 days of the tank being placed in service. (See §K of report for discussion and details.)

6. Staff recommends that Mr. Levie transfer ownership of inactive Well No. 2 to Granite Mountain. Staff further recommends that Granite Mountain file an Affidavit stating that the ownership of Well No. 2 has been transferred to the Company. Staff further recommends that the Affidavit be filed within 90 days of the effective date of the Commission order in this matter. (See §K of report for discussion and details.)

Conclusions:

1. A check of the Compliance Section database indicated that Granite Mountain has no delinquency (per ACC database compliance check dated April 15, 2015). (See §H of report for discussion and details.)
2. The Company is in compliance with Arizona Department of Environmental Quality ("ADEQ") water quality standards and is delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 (Safe Drinking Water Regulations). (See §F of report for discussion and details.)
3. The Company is located in the Arizona Department of Water Resources ("ADWR") Prescott Active Management Area. Staff received a Compliance Status Report from ADWR for Granite Mountain on July 22, 2014. In its report, ADWR states that the Company is compliant with departmental requirements governing water providers and/or community water systems. (See §G of report for discussion and details.)
4. The Company had a non-accountable water loss of 7.11 percent during the test year which is within the 10 percent allowable limit. (See §D of report for discussion and details.)
5. Staff concludes that the Company has adequate production and storage capacity to serve its existing customer base and reasonable growth. (See §C of report for discussion and details.)
6. The Company has approved Backflow and Curtailment Tariffs on file with the Commission. (See §K of report for discussion and details.)
7. Staff concludes the Company will have sufficient control over its water supply to ensure that it will be able to serve its customers. (See §K of report for discussion and details.)
8. To prevent storm water runoff from flooding the Well No. 6 site, Granite Mountain installed two culverts under Short Spur Trail crossing approximately 180 feet southwest from the Well No. 6. Staff recommends that the expenses for culvert installation be classified to Structure and Improvements Account No. 304, when Well No. 6 becomes used and useful. (See §K of report for discussion and details.)

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**ENGINEERING REPORT
GRANITE MOUNTAIN WATER COMPANY, INC.
DOCKET NO. W-02467A-14-0230 (RATES)**

A. PURPOSE OF REPORT

This report was prepared in response to the application of Granite Mountain Water Company, Inc. ("Granite Mountain" or "Company") with the Arizona Corporation Commission ("ACC" or "Commission") for a rate increase. The ACC Utilities Division Staff ("Staff") performed an engineering review and analysis of the subject application. The results of Staff's review and analysis are presented in this report.

On September 25, 2014, Dorothy Hains, Staff Engineer, conducted an inspection of the Company's system, accompanied by Teresa Hunsaker (Staff Accountant) and Arden Barney (Company's Manager). On January 21, 2015, Staff conducted a follow-up inspection with Mr. Barney regarding the status of certain post test year plant additions. On March 24, 2015, Staff conducted a second follow-up inspection with Mr. Barney regarding post-test year plant.

B. LOCATION OF SYSTEM

The Company is located approximately 6 miles northeast of the City of Prescott in Yavapai County. Attached Exhibits 1 and 2 detail the location of the service area in relation to other Commission-regulated companies in Yavapai County and in the immediate area. The Company serves an area approximately three quarters of a square mile in size that includes portions of Sections 30 and 31, of Township 15 North, Range 2 West.

C. DESCRIPTION OF SYSTEM

I. System Description

The system is regulated under Arizona Department of Environmental Quality ("ADEQ") Public Water System ("PWS") No. 13-150. The Company owns and operates a water system that consists of three active wells, two storage tanks, a booster pump station and a distribution system. The wells are approximately 300 feet apart on Shane Drive. A detailed listing of the Company's water system facilities is as follows:

Table 1 Plant Facility and Well Data (in PWS No. 13-150)

Active Well Data

| Well No. | Arizona Department of Water Resource ("ADWR") No. (55-) | Pump (HP) | Yield (GPM) | Casing Size (in inches) | Casing Depth (in ft.) | (Meter Size inches) | Year drilled | ownership | location |
|-------------------|---|-----------|------------------------------|-------------------------|-----------------------|---------------------|--------------|-------------------|--|
| 3 | 554078 | 15 | 8 ¹ | 6 | 500 | 3 | 1996 | Granite Mtn Water | Willison Valley Rd/Shane Dr. (near 2465 Shane Dr.) |
| 4 | 511771 | 15 | 35 | 6 | 362 | 2 | 2004 | Granite Mtn Water | Willison Valley Rd/Shane Dr. (near 2465 Shane Dr.) |
| (Short Spur Well) | 210719 ² | 10 | 17 ² (maximum) | 5 | 340 | 2 | 2006 | Granite Mtn Water | 2475 Short Spur Trail |
| TOTAL | | | 60 | | | | | | |

Notes:

1. Per the Company this well production has declined. The production varies from 22 GPM to 8 GPM; the pumping rate at static water level is 8 GPM.
2. This well has been in service since May 2015, ADWR requirements limit this well's production to 17 GPM.

Inactive Well Data

| Well No. | ADWR No. (55-) | Pump (HP) | Yield (GPM) | Casing Size (in inches) | Casing Depth (in ft.) | (Meter Size inches) | Year drilled | ownership | location |
|----------|---------------------|-----------|-------------|-------------------------|-----------------------|---------------------|--------------|------------|-------------------|
| 2 | 511301 ¹ | n/a | n/a | 6 | 275 | n/a | 1985 | Paul Levie | 2728 W Boone Ct. |
| 1 | 502453 | ½ | 10 | 7 | 340 | n/a | 1982 | Ray Dewey | 2626 W Levie Lane |
| 5 | 622083 | n/a | n/a | n/a | n/a | n/a | 1986 | Paul Levie | 2465 Shane Dr. |

Notes:

1. Well No. 2 is used to monitor the ground water elevation. (See Section K below for further decision.)

Active Storage Tanks and Pump Station

| Capacity (Gallons) | Size (in feet) | Quantity | Location |
|-----------------------|----------------------------------|----------|---|
| 11,700 | 16' in Height 11' in Diameter | 1 | Intersection of Levie Lane & Rainmaker Rd |
| 50,000 | 16' in height | 1 | Intersection of Levie Lane & Rainmaker Rd |
| Total: 61,700 gallons | | | |
| | | | |
| 2,000 (pressure tank) | | 1 | Intersection of Levie Lane & Rainmaker Rd |
| | 3-HP booster pumps | 2 | Intersection of Levie Lane & Rainmaker Rd |

Inactive Storage Tank

| Capacity (Gallons) | Size (in feet) | Quantity | Location |
|-----------------------|-------------------|----------|---|
| 50,000 | n/a | 1 | Intersection of Levie Lane & Rainmaker Rd |
| Total 50,000 gallons | | | |

Distribution Mains

| Diameter (inches) | Material | Length (feet) |
|-------------------|----------------------------|---------------|
| 2 | polyvinyl chloride ("PVC") | 708 |
| 4 | PVC | 16,114 |
| 6 | PVC | 19,098 |

Meters

| Size (inches) | Quantity |
|---------------|----------|
| 5/8 x 3/4 | 100 |
| 3/4 | 0 |
| 1 | 40 |
| 1 1/2 | 0 |
| 2 | 1 |
| 3 (comp) | 0 |
| 3 (turbo) | 0 |
| 4 (comp) | 0 |
| 4 (turbo) | 0 |
| 6 (turbo) | 0 |
| Total | 141 |

II. System Analysis

The Company served approximately 120 metered customers in 2013 during the test year; the majority of which are residential. Staff concludes that the system has adequate production and storage capacity to serve the existing customer base and reasonable growth. See discussion in Section K regarding post-test year plant additions.

D. WATER USAGE

Table 2 summarizes water usage in the Company's Certificate of Convenience and Necessity ("CC&N") service area. Exhibit 4 is a graph that shows water consumption data in gallons per day ("GPD") per customer for the system during the test year.

Table 2 Water Usage in the System (Granite Mountain)

| Month | Number of Customers | Water Sold (in gallons) | Water pumped (in gallons) | Water purchased (in gallons) | Daily Average (in GPD/customer) |
|---------|---------------------|-------------------------|---------------------------|------------------------------|---------------------------------|
| Jan 13 | 122 | 534,000 | 615,000 | 0 | 141 |
| Feb 13 | 119 | 392,000 | 444,000 | 0 | 118 |
| Mar 13 | 122 | 660,000 | 736,000 | 0 | 175 |
| Apr 13 | 123 | 1,015,000 | 1,082,000 | 0 | 275 |
| May 13 | 122 | 1,131,000 | 1,178,000 | 0 | 299 |
| Jun 13 | 122 | 1,236,000 | 1,313,000 | 0 | 338 |
| Jul 13 | 124 | 1,075,000 | 1,179,000 | 0 | 280 |
| Aug 13 | 121 | 1,098,000 | 1,130,000 | 0 | 293 |
| Sep 13 | 122 | 716,000 | 753,000 | 0 | 196 |
| Oct 13 | 120 | 859,000 | 894,000 | 0 | 231 |
| Nov 13 | 121 | 508,000 | 566,000 | 0 | 140 |
| Dec 13 | 121 | 539,000 | 620,000 | 0 | 144 |
| total | | 9,763,000 | 10,510,000 | 0 | |
| Average | | | | | 144 |

I. Water Sold

Based on information provided by the Company, during the test year the Company experienced an overall daily average use of 144 GPD per customer, a high use of 338 GPD per customer, and a low use of 118 GPD per customer. The highest total monthly use occurred in June, when a total of 1,236,000 gallons were sold to 122 customers. The lowest total monthly use occurred in February, when 392,000 gallons were sold to 119 customers.

II. Non-account Water

Non-account water should be 10 percent or less. The Company reported 9,763,000 gallons sold and 10,510,000 gallons pumped, resulting in a water loss of 7.11 percent, which is within the acceptable limit of 10 percent.

E. GROWTH PROJECTION

Based on the service meter data contained in the Company's annual reports, the number of customers increased from 40 at the end of 1999 to 121 at the end of 2013, which results in an average growth rate of 7 additional customers per year for the period. Based on the linear regression analysis, the number of customers could grow to 148 by end of 2018. The following table summarizes both actual and projected growth in the Company's certificated service area.

Table 3 Actual and Projected Growth (Granite Mountain)

| Year | Nos. of Customers | |
|------|-------------------|-----------|
| 1999 | 40 | Reported |
| 2000 | 48 | Reported |
| 2001 | 44 | Reported |
| 2002 | 49 | Reported |
| 2003 | 59 | Reported |
| 2004 | 67 | Reported |
| 2005 | 81 | Reported |
| 2006 | 83 | Reported |
| 2007 | 96 | Reported |
| 2008 | 101 | Reported |
| 2009 | 98 | Reported |
| 2010 | 107 | Reported |
| 2011 | 117 | Reported |
| 2012 | 123 | Reported |
| 2013 | 121 | Reported |
| 2014 | 129 | Reported |
| 2015 | 134 | Estimated |
| 2016 | 139 | Estimated |
| 2017 | 144 | Estimated |
| 2018 | 148 | Estimated |

F. ADEQ COMPLIANCE

In an ADEQ Compliance Status Report dated April 9, 2015, ADEQ stated that the system (PWS No. 13-150) had no major deficiencies. ADEQ determined that the system was delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4 (Safe Drinking Water Regulations).

G. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

Granite Mountain is located in the Prescott Active Management Area ("AMA") as designated by ADWR, and is subject to AMA reporting and conservation rules. Staff received a compliance status report from ADWR dated June 17, 2015, in which ADWR has determined that Granite Mountain Water Company, Inc. is currently in compliance with departmental requirements governing water providers and/or community water systems.

H. ACC COMPLIANCE

A check of the Compliance Section database indicated that Granite Mountain has no delinquency (per ACC database compliance check dated April 15, 2015). (See Section K for further discussion).

I. WATER TESTING EXPENSES

The Company reported its water testing expense at \$5,380 for the test year (this amount includes new source testing for Well No. 6 and ADEQ permit fee which should be reclassified in capital improvement accounts). The Company reported \$1,320 for water testing costs for 2012. Staff used the ADEQ Monitoring Assistance Program ("MAP") to develop its testing costs based on the following assumptions:

1. MAP will do baseline testing on everything except copper, lead, bacteria, and disinfection by-products.
2. The estimated water testing expenses represent a minimum cost based on no "hits" other than lead and copper, and assume compositing of well samples. If any constituents are found, then the testing costs could dramatically increase. ADEQ testing is performed in 3-year compliance cycles. Therefore, monitoring costs are estimated for a 3-year compliance period and then presented on an annualized basis.
3. MAP fees were based on the ADEQ MAP invoice for calendar year 2014.
4. All monitoring expenses are based on Staff's best knowledge of lab costs and methodology and one point of entry.

Table 4 shows Staff's estimated annual monitoring expense.

Table 4 Water Testing Cost

| Monitoring – 3 wells (2 POEs) (Tests per 3 years, unless noted.) | Cost per test | No. of tests per three year period | Total cost per three year period | Annual Cost |
|---|-------------------|--|--|-------------|
| Bacteriological – monthly | \$23 ¹ | 108 | \$2,484 | \$828 |
| Inorganics – Priority Pollutants | \$300 | MAP | MAP | MAP |
| Radiochemical – (1/ 4 yr.) | \$60 | MAP | MAP | MAP |
| Phase II and V: | | | | |
| IOC's, SOC's, VOC's | \$2,805 | MAP | MAP | MAP |
| Nitrites | \$20 | MAP | MAP | MAP |
| Nitrates – annual | \$40 | 12 | MAP | MAP |
| Asbestos – per 9 years | \$180 | 2½ | MAP | MAP |

| | | | | |
|----------------------------------|--------------------|----|---------|-------------------|
| Lead & Copper – annual* | \$34 ² | 5 | \$170 | \$57 |
| TTHM/HHAs – per 3 years | \$360 ³ | 3 | \$1,080 | \$360 |
| Maximum chlorine residual levels | \$0 | 72 | \$0 | \$0 |
| MAP fees (annual) | | | | \$540.41 |
| Sample transport fee | \$65 | | | \$65 |
| Total | | | | \$1,850 (rounded) |

Notes:

1. Assumes Biological tests performed by Bradshaw Mountain Environmental.
2. Assumes these tests performed by Legend Lab.

Water testing expenses should be adjusted to the annual expense amount shown in Table 4, which totals \$1,850.

J. DEPRECIATION RATES

The Company requests to modify its approved depreciation rates, however, the Company did not provide supporting documentation. Therefore, Staff recommends denial of the Company's request. Staff further recommends the approval of Staff's typical and customary depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in Exhibit 6. (See Exhibit 6 for a breakdown of the Company proposed rates and Staff recommends rates.)

K. OTHER ISSUES

I. Service Line and Meter Installation Charges

The Company has proposed to increase its Service Line and Meter Installation charges. The Company's proposed charges are within Staff's typical range for service line and meter installation charges. Therefore, Staff recommends approval of the Company's proposed charges. The charges listed in Table 5 under the columns labeled "Company Proposed/Staff Recommended" should be adopted.

Table 5 Service Line and Meter Installation Charges

| Meter Size | Current Meter Charges (in \$) | Current Service Line Charges (in \$) | Current Total Charges (in \$) | Company Proposed/Staff Recommended Meter Charges (in \$) | Company Proposed/Staff Recommended Service Line Charges (in \$) | Company Proposed/Staff Recommended Total Charges (in \$) |
|----------------|-------------------------------|--------------------------------------|-------------------------------|--|---|--|
| 5/8 x 3/4-inch | 95 | 405 | 500 | 150 | 450 | 600 |
| 3/4-inch | 162 | 413 | 575 | 250 | 450 | 700 |
| 1-inch | 209 | 441 | 650 | 300 | 575 | 875 |
| 1½-inch | 321 | 395 | 716 | 500 | 675 | 1,175 |

| | | | | | | |
|-------------------|-------|-------|-------|-------------|-------------|-------------|
| 2-inch (Turbine) | N/A | N/A | N/A | N/A | N/A | N/A |
| 2-inch (Compound) | 845 | 727 | 1,572 | 1,500 | 1,000 | 2,500 |
| 3-inch (Turbine) | N/A | N/A | N/A | N/A | N/A | N/A |
| 3-inch (Compound) | 1,448 | 952 | 2,400 | 2,000 | 1,300 | 3,300 |
| 4-inch (Turbine) | N/A | N/A | N/A | N/A | N/A | N/A |
| 4-inch (Compound) | 2,206 | 1,310 | 3,516 | 3,500 | 1,800 | 5,300 |
| 6-inch (Turbine) | N/A | N/A | N/A | N/A | N/A | N/A |
| 6-inch (Compound) | 4,756 | 2,160 | 6,916 | 6,000 | 2,800 | 8,800 |
| Over 6-inch | N/A | N/A | N/A | Actual Cost | Actual Cost | Actual Cost |

II. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

III. Cross Connection or Backflow Tariff

The Company has an approved backflow prevention tariff on file with the Commission.

IV. BMP Tariffs

Staff recommends that Granite Mountain file with Docket Control, as a compliance item in this docket and within 45 days of the effective date of a decision in this proceeding, at least three (3) BMPs in the form of tariffs that substantially conform to the templates created by Staff. The templates created by Staff are available on the Commission's website at <http://www.azcc.gov/Divisions/Utilities/forms.asp>.

Staff further recommends that a maximum of two BMPs may come from the "Public Awareness/Public Relations" or "Education and Training" categories. The Company may request cost recovery of the actual costs associated with the BMPs implemented in its next general rate application.

V. Post-Test Year Plant

The Company includes three plant improvement items in its proposed post-test year plant additions: (1) Well No. 6 installation, (2) a new 6-inch main along Short Spur Trail connecting Well No. 6 with the main line at or near Williamson Valley Highway and (3) one 50,000 gallon storage tank. On March 24, 2015, when Staff conducted its last post-test year plant inspection, none of the new plant additions had been completed. On May 19, 2015, ADEQ has issued a Certificate of Approval of Construction ("AOC") for the installation for Well No. 6 and 620 feet of 6-inch PVC main. Therefore, Staff concludes that Well No. 6 and 6-inch main at or near Williamson Valley Highway are used and useful.

The Company is also in the process of installing a new 50,000 gallon storage tank; however, the construction is incomplete. The Company estimates the construction of the storage tank will be completed in September.

Staff recommends that Granite Mountain file a copy of the AOC for the new 50,000 gallon storage tank with Docket Control as a compliance item in this docket within 90 days of the tank being placed in service.

VI. Requirements in Commission Decision No. 71869

In Decision No. 71869, the Commission ordered Staff to determine if the Company has sufficient control over its water supply to ensure that all customers will be served. According to ADWR well ownership records, the Company's active wells (Well No. 3 and Well No. 4) have been registered to the Company.

Inactive Well No. 2 is registered to Mr. Paul Levie, not to the Company. Well No. 2 is used to monitor ground water depth at ADWR's request. Since customers have paid for the maintenance expenses associated with this ADWR monitoring well, Staff recommends that Mr. Levie transfer ownership of this well to the Company. Staff further recommends that the Company file an Affidavit stating that the ownership of Well No. 2 has been transferred to the Company within 90 days of the effective date of the Commission order in this matter.

The Company's tanks are located in the Public Utility Easement ("PUE") as recorded in Parcel No. 102-14-037. Paragraph D.9.B in Covenants, Conditions and Restrictions ("CC&R") for Granite Mountain Homesites Unit V, Phase I, Equestrian Development Corp defines the PUE. Staff concludes the Company will have sufficient control over its water supply to ensure that it will be able to serve its customers.

VII. Post-test Year Project Expenses

1. Well No. 6 Land Site (Total Land Area 12,200 Square Feet Assessor Parcel Number ("APN") No. 102-09-008D)

Based on the ADEQ's approved construction plan, 4,900 square feet of the total land area is designated as easement for the well, pump house and on-site water mains and 7,300 square feet of the land area is designated to road right-of-way use to access Well No. 6. The expenses for the easement should be reclassified to Land and Land Rights Account No. 303 from Well Account No. 307.

2. Culverts

To prevent storm water run-off from flooding the Well No. 6 site, the Company installed two 30 feet, 30-inch diameter galvanized culverts under Short Spur Trail crossing approximately 180' southwest from the Well No. 6. Staff recommends that the expenses for culvert installation be

classified to Structure and Improvements Account No. 304, when Well No. 6 becomes used and useful.

VIII. Reclassification

1. Invoice No. 13535 from R W Tuner & Sons

All expenses in the Invoice No. 13535 had been listed under NARUC Account No. 307 for Wells. Staff recommends reclassification as follows:

| Amounts (\$) | Description of Plant item | Reclassified to NARUC Account No. | Reasons |
|-----------------|---|---|--|
| 4,200 | Yaskawa variable frequency drive ("VFD") Nema 1 | 311 (Pumping Equipment) | VFD is an adjustable-speed drive used in electro-mechanical drive systems to control motor speed |
| 1,196 | 2" water meter with coupling | 334 (Meters) | This is a well meter. |
| 80.96 | 1" pressure reducer | 333 (Services) | The device is for a service connection to 2475 Short Spur Trail |
| 1,792.00 | B7B pellet chlorinator with pellets | 320.2 (Solution Chemical Feeders) | This is a water treatment device. |

2. Invoice No. 13694 from R W Tuner & Sons

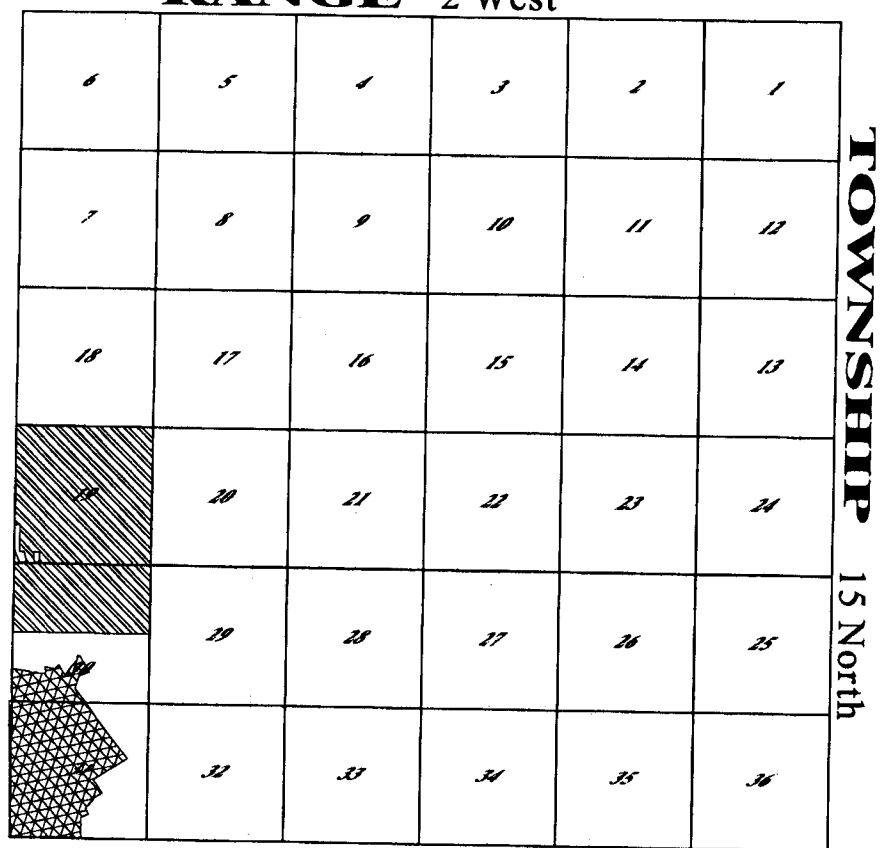
Plant items in Invoice No. 13694 are related to a chlorine disinfection device; therefore, \$2,415.00 should be classified as plant in NARUC Account No. 320.2 (Solution Chemical Feeders).

FIGURE 1

Granite Mountain Certificate Service Area

COUNTY: *Yavapai*

RANGE 2 West



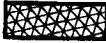

-  U-2467 (1)
Granite Mountain Water Company
-  U-2539 (1)
Granite Oaks Water Users Association

FIGURE 2.

LOCATION OF GRANITE MOUNTAIN SERVICE AREA

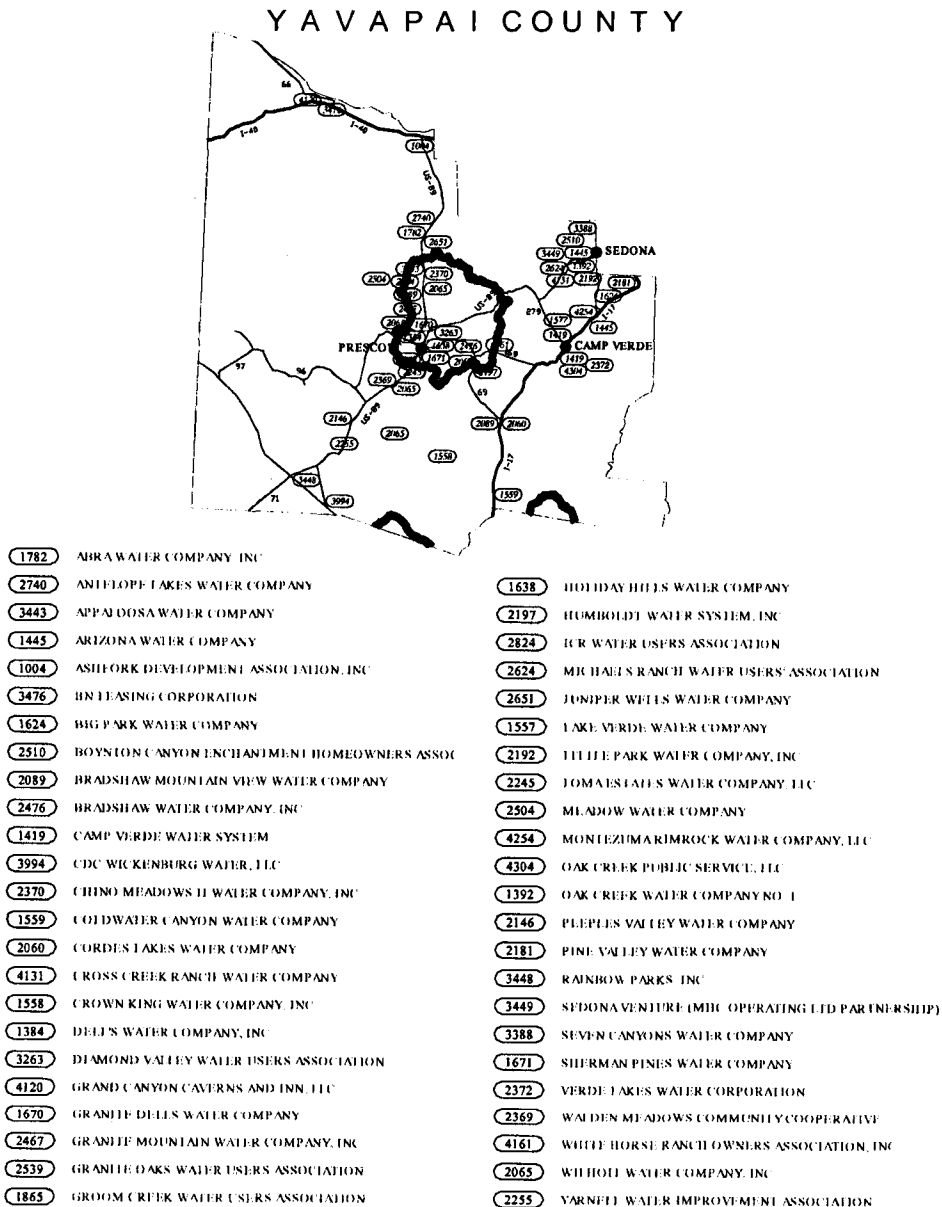


FIGURE 3
SYSTEMATIC DRAWING

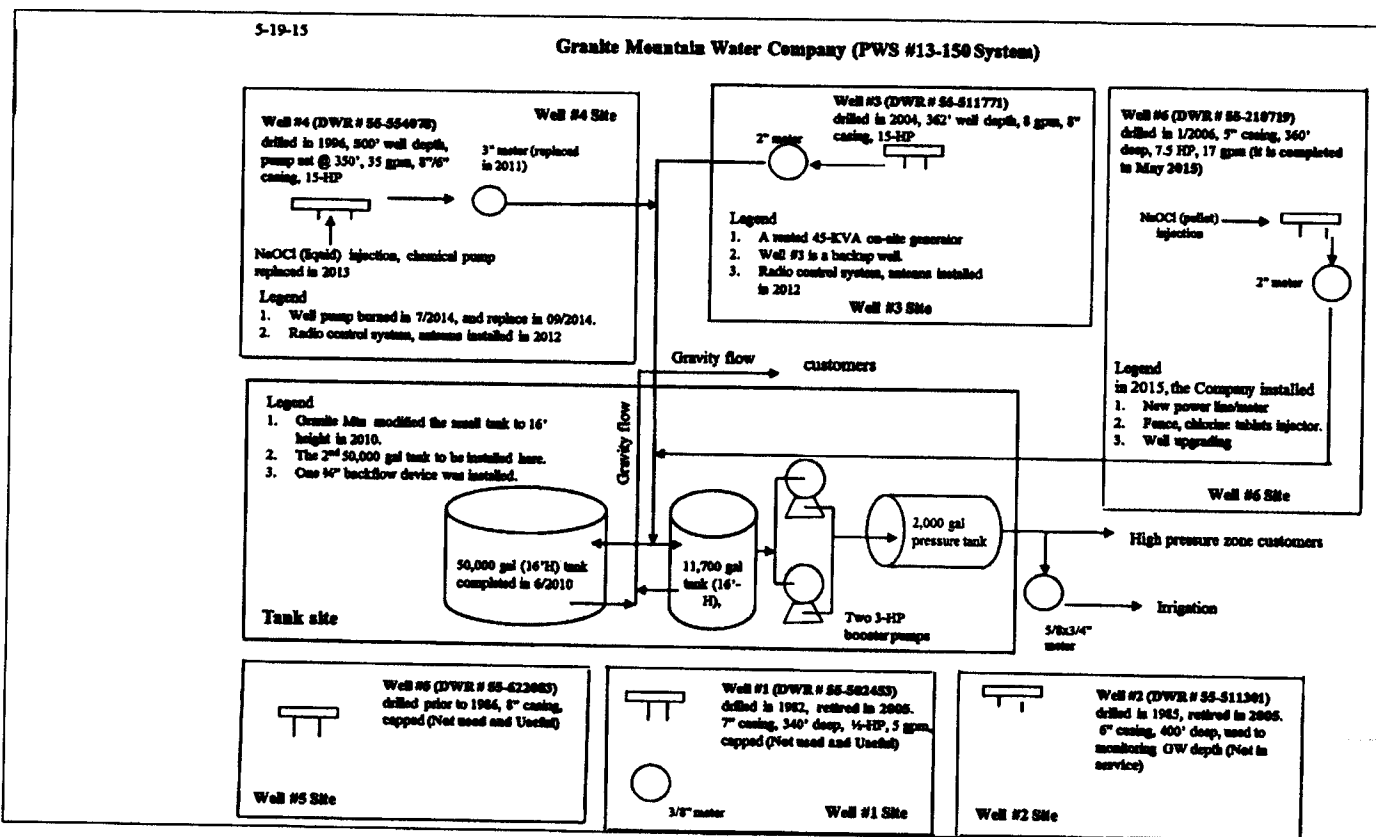
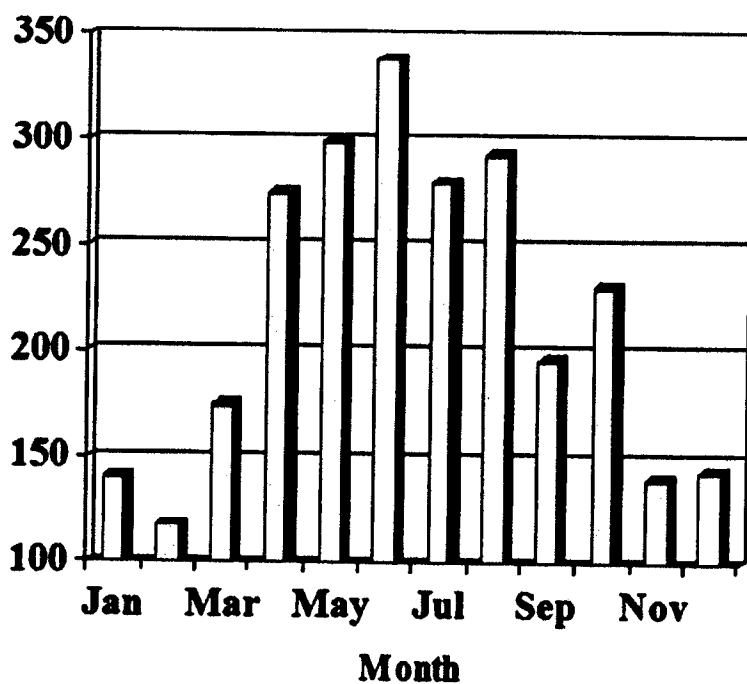


FIGURE 4

WATER USAGE ON THE GRANITE MOUNTAIN SERVICE AREA

**During 2013 Test Year Water Usage In Granite Mountain
Water CC&N Area**



□ gpd/connections

EXHIBIT 5

ACTUAL AND PROJECTED GROWTH IN GRANITE MOUNTAIN

**Actual And Projected Growth In Granite Mountain Water
Division CC&N Area**

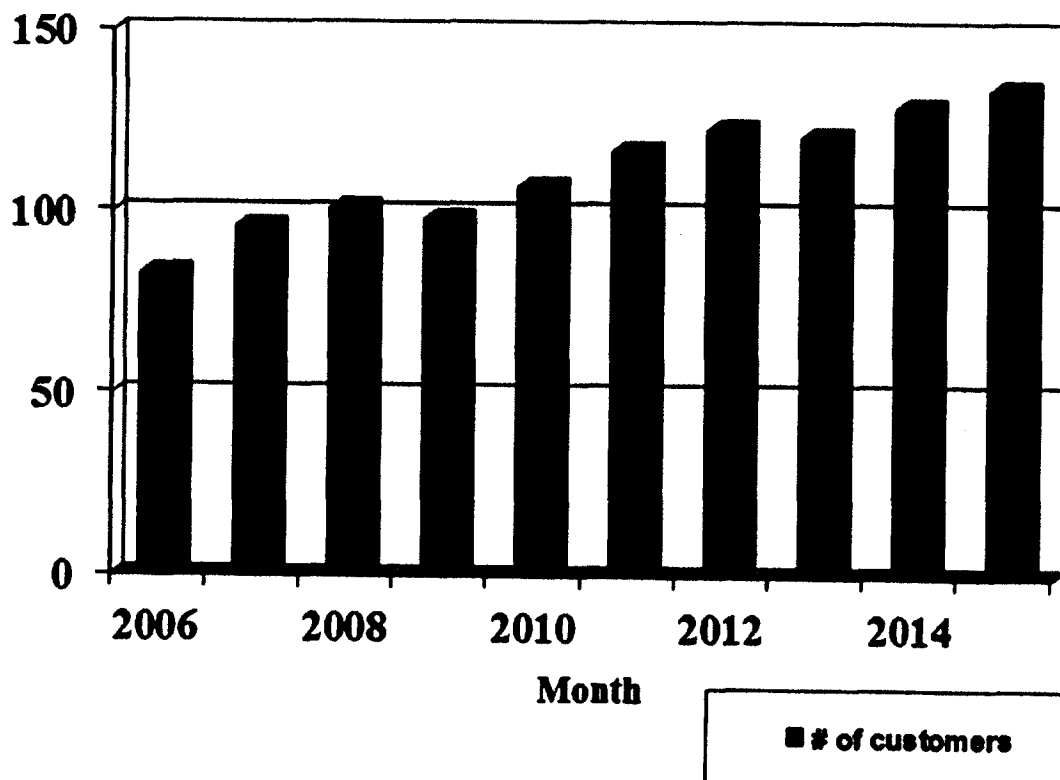


Exhibit 6

Water Depreciation Rates

| Acct. No. | Depreciable Plant | Decision # 71869 (approved rate %) | Company proposed (rate %) | Staff Recommended Rate (%) |
|-----------|--------------------------------------|---|---------------------------------|----------------------------------|
| 301 | Organization Cost | | 0 | 0 |
| 302 | Franchise Cost | | 0 | 0 |
| 303 | Land and Land Rights | | 0 | 0 |
| 304 | Structures & Improvements | 3.33 | 3.33 | 3.33 |
| 305 | Collecting & Impounding Reservoirs | 2.50 | 2.50 | 2.50 |
| 306 | Lake, River, Canal Intakes | 2.50 | 2.50 | 2.50 |
| 307 | Wells & Springs | 3.33 | 3.33 | 3.33 |
| 308 | Infiltration Galleries | 6.67 | 6.67 | 6.67 |
| 309 | Raw Water Supply Mains | 2.00 | 2.00 | 2.00 |
| 310 | Power Generation Equipment | 5.00 | 5.00 | 5.00 |
| 311 | Pumping Equipment | 12.5 | 5.00 | 12.5 |
| 320 | Water Treatment Equipment | | | |
| 320.1 | Water Treatment Plants | 3.33 | 3.33 | 3.33 |
| 320.2 | Solution Chemical Feeders | 20.0 | 20.00 | 20.00 |
| 330 | Distribution Reservoirs & Standpipes | | | |
| 330.1 | Storage Tanks | 2.22 | 2.22 | 2.22 |
| 330.2 | Pressure Tanks | 5.00 | 5.00 | 5.00 |
| 331 | Transmission & Distribution Mains | 2.00 | 2.00 | 2.00 |
| 333 | Services | 3.33 | 3.33 | 3.33 |
| 334 | Meters | 8.33 | 8.33 | 8.33 |
| 335 | Hydrants | 2.00 | 2.00 | 2.00 |
| 336 | Backflow Prevention Devices | 6.67 | 6.67 | 6.67 |
| 339 | Other Plant & Misc Equipment | 6.67 | 6.67 | 6.67 |
| 340 | Office Furniture & Equipment | 6.67 | 6.67 | 6.67 |
| 340.1 | Computers & Software | 20.00 | 20.00 | 20.00 |
| 341 | Transportation Equipment | 20.00 | 15.00 | 20.00 |
| 342 | Stores Equipment | 4.00 | 4.00 | 4.00 |
| 343 | Tools, Shop & Garage Equipment | 5.00 | 5.00 | 5.00 |
| 344 | Laboratory Equipment | 10.00 | 10.00 | 10.00 |
| 345 | Power Operated Equipment | 5.00 | 5.00 | 5.00 |
| 346 | Communication Equipment | 10.00 | 10.00 | 10.00 |
| 347 | Miscellaneous Equipment | 10.00 | 10.00 | 10.00 |
| 348 | Other Tangible Plant | --- | 20.00 | 10.00 |

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A PERMANENT INCREASE IN ITS WATER)
RATES AND CHARGES)
_____)

DOCKET NO. W-02467A-14-0230

SURREBUTTAL

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

September 10, 2015

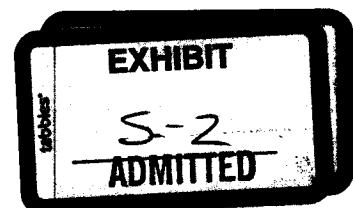


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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 Q. Are you the same Dorothy Hains who has previously filed testimony in this Granite
7 Mountain Water Company ("GMC" or "Company") rate proceeding?

8 A. Yes.

9
10 Q. What is the purpose of your Surrebuttal Testimony?

11 A. In my Surrebuttal Testimony, I will respond to Mr. Ray L. Jones' Rebuttal Testimony
12 regarding Post Test Year plant.

13
14 II. POST TEST YEAR PLANT

15 Q. The Company argued that the 500,000 gallon storage tank should be included in
16 calculating rates for this rate proceeding. Does Staff agree with the Company? Please
17 explain.

18 A. No. The construction of the 500,000 gallons storage tank has not been completed, therefore,
19 this plant item is Not Used and Useful and should not be included in calculating rates for this
20 rate proceeding.

21
22 Q. Did the Company install a well meter at Well No. 6?

23 A. Yes, the Company did install a 2-inch well meter for recording flow at Well No. 6. Since the
24 National Association of Regulatory Utility Commissioner's ("NARUC") definition for "wells"
25 excludes the well meter, and Mr. Jones correctly points out that well meters are listed in

1 NARUC's definition of "pumping equipment," Staff is willing to accept the Company's
2 position. The \$1,196 well meter expense should be reclassified to NARUC Account No. 311
3 (Pumping Equipment) from NARUC Account No. 334 (Meters and Meter Installations).
4

5 **Q. The Company proposes to include in rates post test year plant improvements of**
6 **\$16,000 for the Well and \$1,232 for a well house (Building No. 5). Does Staff agree with**
7 **the Company that these plant improvements should be included in rate base? Please**
8 **explain.**

9 **A.** Staff has determined that the Company's cost of \$16,000 for the addition of Well No. 6 and
10 \$1,232 for a well house (Building No. 5) were reasonable.
11

12 **Q. The Company also requests that \$13,000 for Structures and Improvements be included**
13 **in this rate base. Does Staff agree with the Company? Please explain.**

14 **A.** No. Staff disagrees with the Company. The \$13,000 was the price for three sheds on the
15 APN # 102-09-010D lot on which Well No. 6 is located. The Company shares the office
16 space, the tool shed, and parts storage building with Chino Meadow Water Company in Chino
17 Valley, which is about ten miles north of the Company's service area. During the site
18 inspection, Staff observed personal belongings and furniture stored in the sheds. Often the
19 Company's on-site operator uses his own tools to perform the service. Therefore, Staff
20 disagrees that the customers will benefit from these improvements, contrary to the suggestion
21 by the Company.
22

23 **Q. What is Staff's comment about \$46,000 for the cost of Land?**

24 **A.** The Company provided Staff with an April 14, 2015 Appraisal Report by Huck Appraisal
25 Office, the Report regarding the parcel located in APN #102-09-008D, Yavapai County. This

1 appraisal determined that the parcel consists of 44,594 square feet. Staff determined that only
2 12,200 square feet, which portion includes the easement from W Short Spur Trail to the Well
3 No. 6 Site and the Right of Way along W Short Spur Trail to Williamson Valley Highway, will
4 benefit customers. Assuming a unit cost of \$1 per square foot, the cost of the land would be
5 \$12,200 not \$46,000.
6

7 **Q. Does this conclude your Surrebuttal Testimony?**

8 **A. Yes, it does.**

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A RATE INCREASE.)
_____)

DOCKET NO W-02467A-14-0230

DIRECT

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 15, 2015

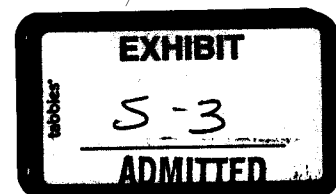


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EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY INC.
DOCKET NO. W-02467A-14-0230

Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or Company) is an Arizona for-profit Class C public service corporation engaged in providing water utility services to approximately 120 customers within Yavapai County, Arizona. Granite Mountain's current rates were approved in Decision No. 71869, dated September 1, 2010. The Company is located approximately three miles north of the City of Prescott off the Williamson Valley Road in Yavapai County. The water system is located in the Prescott Active Management Area.

On June 30, 2014, Chino Meadows II Water Company Inc. ("Chino Meadows" or "CM"), a regulated affiliate of Granite Mountain filed a rate increase application as ordered in Decision No. 72896. This Decision required Chino Meadows to file its next general rate case using the same test year as that used in the next rate case for Granite Mountain in order to eliminate further disputes related to cost allocations. Chino Meadows and Granite Mountain both used a 2013 test year.

The Company proposed a \$64,221, or 54.68 percent revenue increase from test year revenue of \$117,447 to \$181,668. The proposed revenue increase would produce an operating income of \$45,346 for an 8.03 percent rate of return on a proposed \$564,606 fair value rate base ("FVRB") which is also the proposed original cost rate base ("OCRB"). The Company is not requesting rates based on an operating margin. The Company's proposed rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$65.74, for an increase of \$24.53 or 59.53 percent, as shown on Schedule TBH GM-27.

The Utilities Division ("Staff") recommends an increase of \$68,399 or 58.30 percent revenue increase from a Staff adjusted test year revenue of \$117,320 to \$185,719. Staff's recommended revenue change would produce an operating income of \$34,625 for an 8.03 percent rate of return on a Staff adjusted OCRB of \$431,139, as shown on Schedule TBH GM-1. Staff's recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$62.02, for an increase of \$20.81 or 50.51 percent, as shown on Schedule TBH GM-27.

Staff recommends:

1. The Commission approve the Staff-recommended rates and charges as shown on Schedule TBH GM-26.
2. The Company be ordered to file with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. The Company be ordered to repay outstanding notes payable involving affiliates within one year. Further, Staff recommends the Company discontinue the practice of recording notes receivable involving affiliates for a period that exceeds one year without prior Commission approval. Further, Staff recommends that the Company refrain from making personal loans or advances with Company funds.

4. The Company provide an annual report of the accounting of all Corporate Cost Allocations. The reports should be reconciled to the amounts billed and paid by each regulated and unregulated affiliate company. This annual report should be filed in this docket by April 15th for the previous calendar year. Such filing requirement would cease with the filing of the Company's next rate case.
5. The Commission order the Company to use a 4-factor allocation method for indirect expenses between regulated affiliated companies in its next rate case, and Company employees be required to utilize detailed time sheets to trace and allocate payroll cost to each regulated and unregulated affiliate.
6. The Company be ordered to cease providing discounted water to owners, owner family members or employees and to appropriately collect revenues from every recipient of water service as previously ordered in Decision No. 71869.
7. A penalty be assessed to the Company pursuant to A.R.S. §§ 40-424 and 40-425 for the Company's failure to appropriately collect revenues as ordered in Decision No. 71869.
8. The Company develop and submit a Code of Affiliate Conduct related to affiliate activities and transactions, as discussed in Staff's Testimony within 90 days of an order approving new rates in this docket. Such Code of Affiliate Conduct would be applicable to Granite Mountain and all regulated and unregulated affiliates.
9. The Commission provide the authority for Staff to immediately install an interim manager if the Company violates any part of the Code of Affiliate Conduct.
10. The Company file all documentation related to the WIFA Loan.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Teresa B. Hunsaker. I am a Public Utilities Analyst III working for the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Briefly describe your responsibilities as a Public Utilities Analyst.

A. In my capacity as a Public Utilities Analyst, I analyze and examine accounting, financial, statistical and other information included in utility rate, financing and other applications. In addition, I prepare written reports based on my analyses and present Staff's recommendations to the Commission on utility revenue requirements, rate design and other issues. I am also responsible for testifying at formal hearings on these matters.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Science Degree in Accounting from the University of Nevada, Las Vegas and an Associate Degree in Business Management from Clark County Community College. I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utilities Rate School in San Diego in May 2014.

Q. What is the scope of your testimony in this case?

A. I am presenting Staff's analysis and recommendations regarding the application of Granite Mountain Water Company Inc. ("Granite Mountain," "GM" or "Company") for a permanent rate increase. I will present Staff's testimony and schedules addressing rate base, operating revenues and expenses, revenue requirement and rate design. Ms. Dorothy Hains is presenting Staff's engineering analysis and related recommendations.

1 **Q. What is the basis of your testimony and recommendations in this case?**

2 A. I performed a regulatory audit of the Company's application and records to determine
3 whether sufficient, relevant, and reliable evidence exists to support the Company's requested
4 rate increase. The regulatory audit consisted of examining and testing financial information,
5 accounting records, and other supporting documentation and verifying that the accounting
6 principles applied were in accordance with the Commission-adopted NARUC Uniform
7 System of Accounts ("USoA"). In preparing its case, Staff visited the Company's facilities to
8 conduct a plant inspection. Staff also reviewed previous rates and other Commission
9 decisions applicable to this Company and affiliated companies.

10
11 **Q. How is your testimony organized?**

12 A. My testimony is presented in twelve Sections. Section I is this introduction. Section II
13 provides a background of the Company. Section III is a summary of consumer service issues.
14 Section IV presents compliance status. Section V is a summary of proposed revenues.
15 Section VI describes cost allocations. Section VII describes the rate base adjustments and
16 recommendations. Section VIII describes the operating income adjustments and
17 recommendations. Section IX describes the failure to appropriately collect revenue. Section
18 X discusses notes receivable and notes payable. Section XI discusses rate design. Section XII
19 discusses the service charges.

20
21 **II. BACKGROUND**

22 **Q. Please provide the relevant background information associated with the Company's**
23 **application for a rate increase.**

24 A. The Company is a Class D water system providing service to approximately 120 customers in
25 Yavapai County, Arizona. Granite Mountain's current rates were approved in Decision No.
26 71869, dated September 1, 2010. In Decision No. 71869, Granite Mountain was ordered to

1 address its inadequate storage capacity problem. The Company could either drill a
2 replacement well for its existing Well No. 5, or construct and install a 110,000-gallon storage
3 tank. In December 2010, the Company filed a financing application (W-02467A-10-0483) for
4 a \$181,320 loan for water system improvements that included a replacement well for Well
5 No. 5 and a new 50,000-gallon storage tank. Decision No. 72377 approved the Water
6 Infrastructure Finance Authority ("WIFA") financing in W-02467A-10-0483.

7
8 The Company received project completion extensions on several occasions. Such extensions
9 were addressed within the following Commission Decisions 72294, 73155, and 75031.
10 Within Decision No. 75031, the Company was required to provide a copy of the Approval of
11 Construction for the 50,000-gallon storage tank by September 25, 2015.

12
13 On June 30, 2014, Chino Meadows II Water Company Inc. ("Chino Meadows" or "CM"), a
14 regulated sister company of Granite Mountain filed a rate increase application as ordered in
15 Decision No. 72896. The Decision required Granite Mountain to file its next general rate
16 case using the same test year as is used in the next rate case for its sister utility Chino
17 Meadows in order to eliminate further disputes related to cost allocations. Additionally,
18 Chino Meadows and Granite Mountain have another sister utility, Antelope Lakes Water
19 Company Inc. ("Antelope Lakes").

20
21 **Q. Please describe pertinent information provided with this application.**

22 **A.** On June 30, 2014, Granite Mountain filed a permanent rate case. On July 24, 2014 the initial
23 application was found insufficient. On August 8, 2014 Staff filed a Notice of Filing for a time
24 extension requested by the Company.
25

1 On August 25, 2014, the Company docketed its revised Application. On September 8, 2014,
2 the Company docketed an Amended Current and Proposed Rates and Charges.¹ On
3 September 18, 2014, the Company docketed Amended pages to the short form application.²
4 The amended rate application requested funds to eliminate an operating loss, produce an
5 operating income of \$53,499 from a requested rate of return of 8.03 percent, and to include
6 post-test year plant additions in rate base.

7
8 **Q. Did Staff's concurrent audit of these two unconsolidated rate case applications result**
9 **in recommendations that flowed between the two filings so that, for example, a**
10 **recommendation in the Granite Mountain case had to be accommodated in Staff's**
11 **testimony and schedules in the Chino Meadows filing?**

12 **A.** Yes. This was especially true with regard to the recommendations being made by Staff that
13 were subject to cost re-allocation considerations. Unfortunately this lengthened Staff's
14 testimony in both dockets, and resulted in numerous cross-utility impact acknowledgments in
15 both sets of testimony that I am supporting. Staff believes that if the Commission adopts
16 Staff's recommendations regarding the development of a Code of Affiliate Conduct ("Code")
17 for these regulated utilities and their regulated and unregulated affiliates, such efforts and
18 cross-references can be avoided in future rate cases for these utilities.

¹ On September 17, 2014, the Company docketed an Amended Application with current and proposed rates and charges on Page 11.

² On September 18, 2014, the Company docketed an Amended Application due to understated test year revenues by \$12,174. The Amended Application replaced statements in support of rate request, utility plant in service, calculation of depreciation expense, and supplemental financial data comparative statement of income and expense and the supporting attachments. The following pages were amended: Pages 6, 15, 20, and 23.

1 **III. CONSUMER SERVICE**

2 **Q. Please provide a brief summary of customer complaints received by the Commission**
3 **regarding Granite Mountain.**

4 **A.** Staff reviewed the Commission's records for the period January 1, 2012, through April 27,
5 2015, and found that, there were no complaints in years 2012 to 2015. In 2015, there was
6 one consumer comments filed opposing this rate case.

7
8 **IV. COMPLIANCE**

9 **Q. Please provide a summary of the compliance status of Granite Mountain.**

10 **A.** A review of the Commission's Compliance database indicates that there are currently no
11 delinquencies for the Company. The Company is current on its property and sales tax
12 payments.

13
14 **V. SUMMARY OF PROPOSED REVENUES**

15 **Q. Please summarize Granite Mountain's proposals in this filing.**

16 **A.** The Company-proposed rates, as filed, produce total operating revenue of \$181,668, a
17 \$64,221 (54.68 percent) increase, over the test year revenue of \$117,447, to provide a \$45,346
18 operating income, and a 8.03 percent requested rate of return on an adjusted proposed
19 \$564,606 fair value rate base ("FVRB") which is also the proposed original cost rate base
20 ("OCRB"). The Company's proposed rates would increase the typical residential 5/8 x 3/4-
21 inch meter bill with a median usage of 3,684 gallons from \$41.21 to \$65.74, for an increase of
22 \$24.53 or 59.53 percent.

23
24 **Q. Please summarize Staff's recommended revenue.**

25 **A.** Staff's recommended rates would produce total operating revenue of \$185,719, a \$68,399
26 (58.30 percent) increase, from the Staff's adjusted test year revenue of \$117,320, to provide a

1 \$34,625 operating income and 8.03 percent rate of return on Staff's adjusted OCRB of
2 \$431,139 as shown on Schedule TBH GM-1. Staff's recommended rates would increase the
3 typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons from \$41.21
4 to \$62.02, for an increase of \$20.81 or 50.51 percent.

5
6 *Rate Base Adjustments*

7 **Q. Please summarize Staff's rate base adjustments for Granite Mountain.**

8 **A. Post-Test Year Plant** – This adjustment decreases Plant in Service by \$141,506 due to
9 construction of the new 50,000-gallon storage tank that is not in service.

10
11 Reclassify and Plant Additions to Appropriate Classifications – This adjustment for \$19,391
12 increases plant in service for plant additions and reclassifications to the appropriate NARUC
13 classifications.

14
15 Unsupported Plant Treated as Contributions in Aid of Construction ("CIAC") – This
16 adjustment increases CIAC by \$9,643 due to unsupported plant.

17
18 Advances in Aid of Construction ("AIAC") Refunds – This adjustment decreases AIAC by
19 \$2,235 to reflect Staff's adjustment of AIAC because the Company inadvertently missed the
20 2013 payments. The missed payments were paid in 2014.

21
22 Amortization of CIAC – This adjustment increases accumulated amortization of CIAC by
23 \$976 to reflect the amortization of CIAC on the Staff-recommended CIAC additions.

24
25 Accumulated Depreciation – This adjustment increases accumulated depreciation by \$5,552
26 to reflect Staff's calculation based on Staff's recommended plant.

1 Cash Working Capital ("CWC") Allowance – This adjustment increases the allowance by
2 \$634 to reflect calculation of the CWC allowance using Staff's recommend operating
3 expenses.

4
5 *Operating Income Adjustments*

6 **Q. Please summarize Staff's operating income adjustments for Granite Mountain.**

7 **A. Unauthorized Surcharge** – This adjustment decreases the operating other revenues for a
8 surcharge not included in its tariff by \$127.

9
10 Repairs and Maintenance – This adjustment decreases the operating expenses for repairs and
11 maintenance and reclassifies it to post-test year plant by \$1,792.

12
13 Office Supplies – This adjustment decreases the operating expenses for office supplies by
14 \$1,727 for disallowed expenses.

15
16 Contractual Services – This adjustment decreases the operating expenses for contractual
17 services by \$7,531 for expenses reclassified to Construction Work in Progress (CWIP) and
18 Rate Case expenses.

19
20 Water Testing – This adjustment decreases the operating expenses for water testing by \$3,530
21 for expenses reclassified to CWIP and to reflect Staff's recommended annual water testing
22 costs.

23
24 Transportation – This adjustment decreases the operating expenses for transportation
25 expenses by \$900 for disallowed expenses.

26

1 Rate Case Expense – This adjustment increases operating expense by \$6,667 to reflect an
2 appropriate amount for Granite Mountain.

3
4 Allocations – The total of all the adjustments increases operating expenses by \$14,603. The
5 adjustments impact thirteen expense classifications. The adjustments include reclassifications,
6 disallowances and normalizations prior to the appropriate allocations.

7
8 Depreciation Expense – This adjustment increases depreciation expense by \$10,372 to reflect
9 application of Staff's recommended depreciation rates to Staff recommended plant amounts.

10
11 Property Taxes – This adjustment decreases property taxes by \$529 to reflect application of
12 the modified version of the Arizona Department of Revenue's property tax methodology that
13 the Commission has consistently adopted.

14
15 Test Year Income Taxes – This adjustment decreases test year income tax expense by \$4,998
16 to reflect application of statutory state and federal income tax rates to Staff's adjusted taxable
17 income.

18
19 **VI. COST ALLOCATIONS**

20 **Q. Please explain Granite Mountain's test year indirect expenses allocated from Chino**
21 **Meadows.**

22 **A. Per the response provided to Staff in Data Request ("DR") CM TBH 1.42, the Company**
23 included ten categories of indirect expenses as follows: Purchased Power, Chemicals, Repairs
24 and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Insurance -
25 General Liability, Insurance – Health and Miscellaneous Expenses. Per DR GM TBH 1.13,
26 these expenses were allocated to Granite Mountain based upon a ten percent allocation of

1 common costs. However, Per DR GM TBH 1.15, Rents were allocated to Granite Mountain
2 at 20 percent in the test year.

3
4 **Q. What percentage was the Company allocated by Chino Meadows in the test year?**

5 **A.** The percentages varied from 10 to 20 percent per various DR responses.

6
7 **Q. Did the percentage allocated by Chino Meadows to the Company change?**

8 **A.** Yes. Per DR CM TBH 1.42, Chino Meadows allocated 12 percent for common costs, 20
9 percent for rents and 16 percent for Salaries, Wages and Expenses – Officers in 2014.

10
11 **Q. Please explain the impact of common indirect expense (costs) changes in the Chino
12 Meadows Case (14-0231) and the impact to this case.**

13 **A.** Staff reclassified, disallowed, and/or normalized expenses in the Chino Meadows case that
14 were then reallocated to unregulated affiliates and regulated affiliates based on a 4-factor
15 allocation discussed below and are shown on Schedule TBH GM-20a through TBH GM-20g.

16
17 **Q. Was a proper cost allocations ordered in a previous decision? If yes, please explain.**

18 **A.** Yes. Pursuant to Decision No. 72896, Chino Meadows and Granite Mountain were ordered
19 to file their next general rate case using the same test year in order to eliminate further
20 disputes related to cost allocation.

21
22 **Q. What are the components of Staff's recommended 4-factor cost allocation?**

23 **A.** Staff recommends using a 4-factor allocation including the of average number of customers,
24 net plant in service, total annual revenue and total annual gallons pumped in thousands. Each
25 of the four individual factors would then be given equal weight under Staff's
26 recommendation.

1 **Q. Which affiliates will be included in the development of the 4-factor cost allocations?**

2 A. Staff recommends that 4-factor allocation be determined by utilizing all three regulated
3 affiliated water utilities (Chino Meadows, Granite Mountain and Antelope Lakes) as shown
4 on Schedule TBH GM-20e. Additionally, Staff also recommends that the indirect costs
5 should be allocated to all three regulated affiliated water utilities.

6
7 **Q. Please explain the results from using the four factors Staff recommends for allocation**
8 **purposes.**

9 A. The resulting 4-factor allocations are as follows: Antelope Lakes is 2.95 percent, Chino
10 Meadows is 70.12 percent and Granite Mountain is 26.93 percent as shown on Schedule TBH
11 GM-20e.

12
13 **Q. Did Staff identify any expenses that should not be allocated to Granite Mountain?**

14 A. Yes. Staff identified expenses it has deemed improper for rate making purposes.

15
16 **Q. Did Staff identify any expenses paid directly by Granite Mountain that should have**
17 **been included in the Corporate Allocations?**

18 A. Yes. Staff identified \$3,637 in expenses that should have been part of the 4-factor allocation
19 and were paid by Granite Mountain. This allocation increases Repairs and Maintenance by
20 \$1,820 and Transportation by \$1,817. This adjustment is then reallocated through Corporate
21 Allocations and not included in Granite Mountain Direct as shown on Schedule TBH GM-
22 20a Column Q.

23
24 **Q. Why are Corporate Allocations required for transactions with Affiliates?**

25 A. As stated within the NARUC Guidelines, on transactions with Affiliates, "Allocations are
26 important as there is an incentive to shift costs to regulated entities where recovery may be

1 more likely which would result in increased profits for the non-regulated entities.” This
2 guideline stated that “Regulations are designed to prevent “cross subsidization” – one entity
3 paying for costs that actually benefit another entity. Cross subsidization can occur between
4 regulated entities as well as between regulated and non-regulated entities.”

5
6 **Q. Based on the consideration discussed in the NARUC Guideline, does Staff**
7 **recommend that the Company develop and then follow a formal written Code related**
8 **to affiliate transactions?**

9 **A. Yes.**

10
11 **Q. What is the purpose of a formal written Code?**

12 **A. The formal written Code is meant to complement and clarify affiliate transactions. The**
13 **purpose of this Code is to govern all operational and financial activities and relationships with**
14 **and among the parent, owners, family members and all affiliates (regulated and unregulated).**
15 **This Code assures the separation of the traditional roles of the regulated utilities and**
16 **unregulated affiliates. This Code will develop the cost allocation through a cost allocation**
17 **manual that includes time keeping for all employees. The Code would address valuing**
18 **transactions for purchases or sales as well as goods and services provided to or among**
19 **affiliates. Competitive bidding practices should be included in the Code. Financial**
20 **arrangements between affiliates (regulated and unregulated) whether as notes receivable or**
21 **notes payable would need to be addressed in this Code. The Company should develop and**
22 **submit its proposed formal written policy or agreement for the Code to Staff but the scope**
23 **and structure must be acceptable to Staff.**
24

1 **Q. Why is Staff recommending a formal written Code?**

2 A. Staff is recommending the Code due to the ongoing issues with the Company and its
3 regulated and unregulated affiliates. Throughout the review of the books and records of the
4 Company, it is abundantly clear that until a proper code is written and adhered to by the
5 Company the issues presented in my testimony will only continue. By following the Code,
6 the Company should resolve the recurring issues discussed in my testimony. However, Staff
7 recommends that the Commission provide the authority for Staff to immediately install an
8 interim manager if the Company violates any part of the Code.

9
10 **Q. Does Staff believe a formal written Code will suffice to resolve these recurring issues?**

11 A. If the Company follows the code, yes. However, because the Company has a history of
12 failing to comply with similar Commission orders, Staff is recommending that it be
13 authorized to appoint an Interim Manager if it determines the Company violates any part of
14 the Code.

15
16 **VII. RATE BASE**

17 *Fair Value Rate Base*

18 *Rate Base – Plant Documentation*

19 **Q. Are plant costs required to be supported?**

20 A. Yes. The Arizona Administrative Code § R14-2-411(D) (1) states, "Each utility shall keep
21 general and auxiliary accounting records reflecting the cost of its properties...and all other
22 accounting and statistical data necessary to give complete and authentic information as to its
23 properties..." (Emphasis added.)
24

1 Q. During the audit, did Staff identify plant costs which Granite Mountain did not
2 adequately support?

3 A. Yes. Granite Mountain did not provide invoices to support \$96,432 in plant additions, as
4 shown on Schedule TBH GM-5, line 26. Source documents are essential records for
5 verifying plant costs. In the absence of supporting documentation, the Company's plant
6 balances cannot be verified.

7
8 Q. Was there an abnormal or non-recurring event that affected the Company providing
9 source documents and records during the audit?

10 A. Yes, Granite Mountain, Chino Meadows and Affiliates had a fire in the office located at 2465
11 West Shane Drive on December 14, 2011. Mr. Paul Levie provided a sworn statement in the
12 application that the records located in the office and Accounts Payable records and invoices
13 for (2008, 2009, 2010 and 2011) were destroyed in the fire.

14
15 Q. What does Staff typically recommend for inadequately supported plant?

16 A. Staff typically recommends that 100 percent of the cost be removed from rate base. It is the
17 Company's responsibility to support its claimed costs. If unsupported costs are not removed,
18 ratepayers are at risk of paying a return on plant values that may be overstated or on plant
19 items that may not exist.

20
21 Q. Is Staff recommending that 100 percent of the cost be removed in this case?

22 A. No. Staff is not making that recommendation.

23
24 Q. What is Staff's recommended treatment for the inadequately supported plant in this
25 case?

26 A. Staff is recommending that 10 percent of unsupported plant in service be offset with CIAC.

1 **Q. Why is Staff altering its usual position in this case?**

2 A. There are three reasons Staff is recommending this treatment. First as previously noted, the
3 Company's office experienced a fire in December 2011. A majority of the Company's
4 records were destroyed by fire. Second, the Company has made an effort with its bank to
5 obtain copies of cancelled checks and the Company provided numerous letters to the bank.
6 The Company was able to obtain some of the requested records. Third, Staff's inspection
7 verified that the plant did exist and costs were not overstated.

8
9 *Rate Base Summary*

10 **Q. Please summarize Staff's adjustment to Granite Mountain's rate base shown on**
11 **Schedules TBH GM-3 and TBH GM-4.**

12 A. Staff audited the Company's rate base. Staff's adjustment to Granite Mountain's rate base
13 resulted in a net decrease of \$133,466, from \$564,606 to \$431,139. This decrease was
14 primarily due to Staff's adjustments to plant in service and accumulated depreciation
15 associated with the plant. Staff's recommendation results from the six rate base adjustments
16 as discussed below.

17
18 *Rate Base Adjustment No. 1 – Post-Test Year Plant in Service*

19 **Q. What did the Company propose for Post-Test Year Plant in Service?**

20 A. The Company proposed to complete water system improvements and construction on the
21 replacement Well for Well No. 5 (Well No. 6), transmission and distribution mains, and the
22 installation of the 50,000-gallon storage tank as ordered and approved for financing in
23 Decision 72377. The Company's financing application for \$181,320 was approved in
24 Decision 72377 for WIFA financing in W-02467A-10-0483. The Company stated in its
25 application the estimated costs are as follows: Wells & Springs \$75,000, Storage Tanks

1 \$144,000 and Transmission and Distribution Mains \$30,000. The total estimated costs are
2 \$249,000.

3
4 **Q. Has the Company completed all of the proposed Post-Test Year Plant?**

5 A. No. The Construction of the 50,000-gallon storage tank is not complete. Therefore, Staff
6 did not recognize any costs for the construction of this tank and those costs were moved to
7 CWIP as shown on Schedule TBH GM-24.

8
9 **Q. What Post-Test Year Plant was brought into service by the Company as ordered?**

10 A. The Company brought into service Well No. 6 that was a replacement well for Well No.5 and
11 the transmission and distribution mains from Well No. 6 to the Company's existing water
12 delivery system.

13
14 **Q. What were the estimated costs for Well No. 6?**

15 A. In the application, the Company estimated the costs for Well No. 6 to be \$75,000. The costs
16 consisted of \$25,000 for the existing well and \$50,000 for the easement per the Company's
17 response to DR GM TBH 1.43. In the Company's response to DR GM TBH 1.34, the
18 Company provided a copy of the recorded Granite Mountain Short Spur Easement between
19 the Company and Sandia Properties LLC dated October 13, 2013 with the Yavapai County
20 Recorder on May 29, 2014. Sandia Properties LLC is controlled by John and Shauna Duke,
21 Mr. Paul Levie's daughter and son-in-law who acquired the property.

22
23 **Q. Did the Company describe the well and land easement for Well No. 6? If yes, please**
24 **explain.**

25 A. Yes. In the Company's response to DR GM TBH 1.35, a description of the easement is "The
26 easement grants the Company use of the existing Well No. 6, an out building used as a well

1 house, access to the property (and Well No. 6), and the land rights needed to install a pipeline
2 to connect Well No. 6 to the Company's existing distribution system.

3
4 **Q. Does Staff accept the Company's allocation for the estimated expenses for Well No. 6**
5 **of \$75,000? Please explain.**

6 A. Staff accepted the Company's allocation of \$25,000 for the Well No. 6 and well house. Staff
7 does not accept the allocation of \$50,000 for the easement. The transaction between the
8 Company and Sandia Properties LLC was not an arm's length transaction. Additionally,
9 Jonathan and Shauna Duke purchased the property for \$155,000 and are seeking to recover
10 nearly half through the negotiated agreement between the Company and Sandia Properties
11 LLC. Furthermore, the rental home located at 2475 West Short Spur Trail is an investment
12 property being managed by the Company's personnel at \$1,000 per month or \$12,000 per
13 year.

14
15 **Q. How did Staff determine a fair and reasonable value for the easement at 2475 West**
16 **Short Spur Trail for Well No. 6?**

17 A. In the Company's response to DR GM TBH 3.4, the Company provided a copy of the
18 County Appraisal conducted by Yavapai County's Appraisal Consultants dated February 2,
19 2012. The appraisal was conducted to estimate the total compensation due the owners for a
20 partial acquisition of the property by Yavapai County for right of way purposes. The
21 appraisal³ valued the subject property at \$1.00 (rd) per square foot. Staff Engineer
22 determined the 12,200 square feet be designated as the easement for Well No. 6 (4,900 square
23 feet for the well, pump house and on-site water mains and 7,300 square feet of land area is
24 designated to road right of way use to access Well No. 6). A more complete description of
25 the system is provided in the Engineering Report. Staff determined that \$12,200 for the

³ Per DR GM TBH 3.4 County Appraisal, Page 35.

1 easement based on the County Appraisal and Engineer Report as the area determined to be
2 used and useful. Additionally, Staff included \$2,500 for a land survey and an additional
3 appraisal paid by the Company in April 2015. Staff has requested a copy of a certified
4 appraisal through DR's GM TBH 3.4 and GM TBH 6.1 and to date no appraisal has been
5 provided by the Company.

6
7 **Q. Did Staff disallow any costs for Well No. 6? Please explain.**

8 A. Yes. The Company provided a copy of a check (Check No. 5403) to Danny Levie dated
9 December 31, 2013 for Construction Work in Progress for Well No. 5 in the amount of
10 \$3,500. The check memo reads "for prep work and installing of 2 pipes, back hoe Bobcat
11 and gradework at Short Spur Well". Additionally, the Company did not provide an invoice
12 and the work was done through a verbal agreement. Staff has disallowed the \$3,500 for the
13 Post-Test Year Plant of Well No. 6. Staff requested a copy of the cancelled check and the
14 Company stated that Check No. 5403 was voided and the amount was offset to balance owed
15 by Daniel Levie. Staff discusses this related party transaction below in Section - Related Party
16 Transactions – Company Failed to Appropriately Collect Revenue. Staff disallowed these
17 costs.

18
19 **Q. What did Staff reclassify for Post-Test Year Plant?**

20 A. Staff reclassified the following: Land and Land Rights were increased by \$14,700, Structures
21 & Improvements were increased by \$8,373, Wells & Springs decreased by \$44,065, Pumping
22 Equipment increased by \$11,270, Solution Chemical Feeders increased by \$5,669, Storage
23 Tanks decreased by \$144,000, Transmission and Distribution Mains increased by \$4,869,
24 Services increased by \$81, Meters and Meter Installations increased by \$1,196 and Backflow
25 Prevention Devices increased by \$402 as shown on Schedule TBH GM-5.
26

1 Q. Did the Company complete the Transmission and Distribution Mains estimated at
2 \$30,000? Please explain.

3 A. Yes. Staff increased Transmission and Distribution Mains by an additional \$4,869 due to the
4 actual cost of \$34,869 as shown on Schedule TBH GM-5.

5
6 Q. How was the Post-Test Plant to be funded?

7 A. The Company was authorized to incur debt through WIFA as proposed to complete water
8 system improvements and construction on Well No. 6, transmission and distribution mains,
9 and the installation of the 50,000-gallon storage tank as ordered and financing approved in
10 Decision No. 72377. The Company's financing application for \$181,320 loan was approved
11 in Decision No. 72377 for WIFA financing in W-02467A-10-0483. The remaining balance is
12 to be covered by equity.

13
14 Q. Is Staff aware of any current issues with the loan with WIFA?

15 A. WIFA has informed Staff that the Company is currently not being provided funds due to
16 proper licensing issues through the Arizona Registrar of Contractors ("ROC"). The previous
17 contractor was not a prime contractor with the ROC and is a Certified Water Operator with
18 the Arizona Department of Environmental Quality ("ADEQ"). The current prime
19 contractor performing the installation of the 50,000-gallon storage tank is licensed as an
20 electrical contractor with the ROC.

21
22 Q. Did Staff receive a late filed response to Staff's data requests from the Company
23 regarding post-test year plant?

24 A. Yes. The Company provided written response and a copy of an appraisal report of an
25 easement dated April 14, 2015 in response to Staff's DR 6.1 on July 10, 2015. Staff has not

1 had an opportunity to analyze this data or its impact on costs and plans to address them in its
2 Surrebuttal Testimony.

3
4 **Q. What is Staff's recommendation?**

5 A. Staff recommends that the Company provide the supporting documentation for the 50,000-
6 gallon storage tank as ordered in previous decisions and additional recommendations in
7 Staff's Engineering Report. Staff further recommends that the Company provided the
8 required WIFA documentation as ordered in previous decisions.

9
10 *Rate Base Adjustment No. 2 – Reclassify Plant and Plant Additions to Appropriate Classifications*

11 **Q. Did Staff reclassify or add other plant in service in this case?**

12 A. Yes, Staff adjusted the following: Storage Tanks in Acct. 330.1 reclassified \$36,913 to
13 Structures & Improvements in Acct. 304; Wells & Springs in Acct. 307 increased in the
14 amount of \$539 from expenses incurred during the test year; Pumping Equipment in Acct.
15 310 reclassified \$912 to Power Equipment in Acct. 311; Water Treatment Equipment in Acct.
16 No. 320 reclassified \$1,661 to Solution Chemical Feeders in Acct. No. 320.2; Distributions
17 Reservoirs & Standpipes in Acct. 330 reclassified \$7,325 to Storage Tanks in Acct. 330.1;
18 Distributions Reservoirs & Standpipes in Acct. 330 reclassified \$450 to Communication
19 Equipment in Acct. 346; Storage Tanks in Acct. 330.1 reclassified \$6,700 to Communication
20 Equipment in Acct. 346; Transportation Equipment in Acct. 341 increased by \$19,000 for a
21 vehicle addition in the test year; and Tools in Acct. 343 was decreased in the amount of \$149
22 as an expense.
23

Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC

Q. Does Staff's Rate Base Adjustment No. 3 relate to the unsupported plant investments being treated as CIAC which was already discussed?

A. Yes. Staff recommends treating 10 percent of the unsupported plant additions of \$96,432 as contributions and included \$9,643 in CIAC, as shown on Schedule TBH GM-7 line 28. The associated adjustment for the amortization of the CIAC for this plant is \$976.

Rate Base Adjustment No. 4 – AIAC Refunds

Q. Did the Company properly refund the AIAC obligations in the test year?

A. No. The Company stated in response to DR GM TBH 1.19 that, due to employee error it inadvertently failed to make the required refunds during the test year. The Company made the required refunds in 2014.

Q. What is Staff's recommendation?

A. Staff recommends an AIAC balance decrease by \$2,235 for refunds the Company inadvertently failed to make during the test year.

Rate Base Adjustment No. 5 – Accumulated Depreciation

Q. Did Staff make any adjustments for Accumulated Depreciation?

A. Yes.

Q. What is Staff's recommendation?

A. Staff calculated the accumulated depreciation based on Staff's recommended plant adjustments. Staff's calculation of \$538,043 as shown on Schedule TBH GM-9 includes Staff's rate base adjustments summarized on Schedule TBH GM-4 and the associated additions or reductions to rate base.

Rate Base Adjustment No. 6 – Cash Working Capital Allowance

Q. What is Cash Working Capital?

A. Cash working capital represents a required level of funding provided by investors for the purposes of paying operating expenses in advance of receiving recovery of such expense from customers through rates. The cash working capital allowance is a component of rate base that can be positive or negative.

Q. What is Granite Mountain proposing for the cash working capital allowance?

A. The Company proposes a cash working capital allowance based on the formula method, i.e., one-twenty-fourth of purchased water and purchased electric power expense and one-eighth of other operating and maintenance expenses.

Q. What is Staff's recommendation?

A. Staff recommends a Cash Working Capital Allowance balance of \$11,296, a \$634 increase over the Company's proposed balance of \$10,662, as shown on Schedules TBH GM-4 and TBH GM-10.

VIII. OPERATING INCOME

Operating Income Summary

Q. What are the results of Staff's analysis of test year revenues, expenses, and operating income?

A. As shown on Schedules TBH GM-11 and TBH GM-12, Staff's analysis resulted in test year revenues of \$117,320, expenses of \$136,234 and operating loss of \$18,914. The Company's application shows test year revenues of \$117,447, expenses of \$125,600 and an operating loss of \$8,153. Staff's recommendation results from the eleven operating income adjustments discussed below.

Operating Income Adjustment No. 1 – Surcharge - Other Revenue

Q. What is the Company proposing for other revenues?

A. The Company proposed \$3,174 for other revenues.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year other revenues by the amount of \$127, as shown on Schedule TBH GM-13. This adjustment decreases the operating other revenues for a surcharge not included in its tariff for \$127. Such revenues should not be recurring since this surcharge is not included in the Company's Commission-approved tariffs.

Operating Income Adjustment No. 2 – Repairs and Maintenance

Q. Please describe Staff's adjustments for Repairs and Maintenance.

A. Staff reclassified materials used to construct the culvert on the private road at the Short Spur property for Well No. 6 of \$3,292 and the payment of \$1,500 by the property owner adjacent to the property, as shown on Schedule TBH GM-14.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year repairs and maintenance by \$1,792, as shown on Schedule TBH GM-14.

Operating Income Adjustment No. 3 – Office Supplies

Q. Please describe Staff's adjustments for Office Supplies.

A. Staff disallowed \$1,727 for Mr. Paul Levie's office phone for his property management and other affiliated companies, as shown on Schedule TBH GM-15.

Operating Income Adjustment No. 4 – Contractual Services

Q. Please describe Staff's adjustments for Contractual Services.

A. Staff reclassified expenses to Post Test Year Plant for engineering expenses for the transmission and distribution lines of \$3,500 for the and water testing of \$3,045 for the new well (Well No. 6). Staff reclassified the rate case expenses of \$986 to the appropriate classification. These adjustments are shown on Schedule TBH GM-16.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year contractual services expenses by \$7,531, as shown on Schedule TBH GM-16.

Operating Income Adjustment No. 5 – Contract Services, Water Testing

Q. Please describe Staff's adjustments for Water Testing.

A. Staff reclassified expenses to Post Test Year Plant for Well No. 6 for water testing expense to ADEQ for \$2,500 and CWIP for Storage Tank No. 3 for water testing expenses to ADEQ for \$1,800. Staff normalized the water testing costs to \$1,850.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year contractual services – water testing expense by the amount of \$3,530, as shown on Schedule TBH GM-17. Staff's adjustments reflect the recommended annual water testing costs as shown on Staff's Engineering Report.

Operating Income Adjustment No. 6 – Transportation

Q. Please describe Staff's adjustments for Transportation.

A. Staff disallowed gas reimbursement expenses to the Administrative Assistant of \$100 per month for a total of nine months. In response to DR GM TBH 2.13, the Company stated

1 "that the reimbursement was provided as an employee benefit due to the difficulty in finding
2 administrative employees willing to drive to the Company's office. Currently, both
3 administrative staff positions are filled by employees that live in Chino Valley. Accordingly,
4 this employee benefit is not currently offered."

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends decreasing test year transportation expense by the amount of \$900, as
8 shown on Schedule TBH GM-18.
9

10 *Operating Income Adjustment No. 7 – Rate Case Expenses*

11 **Q. What is the Company proposing for rate case expenses?**

12 A. The Company originally proposed \$3,333 for the adjusted test year expense. The Company
13 estimated that the combined rate case expense for Chino Meadows and Granite Mountain of
14 \$50,000. For the filings the costs were allocated 20 percent to Granite Mountain \$10,000 and
15 80 percent for Chino Meadows (\$40,000). The Company normalized the \$40,000 expense
16 over 3 years. However, according to the Company's supplemental response to Staff's DR
17 GM TBH 1.7, the Company is now claiming a combined rate case expense for Chino
18 Meadows and Granite Mountain of \$75,000. The Company's adjusted costs would be
19 allocated at 40 percent to Granite Mountain (\$30,000) and 60 percent for Chino Meadows
20 (\$45,000). The Company would normalize this \$30,000 expense over 3 years.
21

22 **Q. What is Staff's recommendation?**

23 A. Staff is recommending recognition of a rate case expense level of \$10,000, an increase of
24 \$6,667 over the Company's originally proposed amount of \$3,333.
25

Operating Income Adjustment No. 8 – Cost Allocations

Q. How did Staff develop its Cost Allocation based adjustments?

A. Staff developed its recommended cost allocation based adjustments by a review of the Company's underlying expenses and based upon the application of the 4-factor cost allocations Staff is recommending. The resulting expense level changes were the result of expense reclassifications, expense level disallowances and expense level normalizations. Staff's adjustments to Chino Meadows impact these adjustments to Granite Mountain. Therefore, Staff will be referring the Chino Meadows' adjustments for its cost allocation based adjustments.

Reclassifications

Q. Did Staff reclassify expenses for Salaries and Wages, Repairs and Maintenance, Office Supplies, Rent, Contractual Services, Transportation, Miscellaneous and Payroll Taxes?

A. Yes. Staff reclassified expenses to each of the classifications listed above as shown on Schedule TBH GM-20b. Staff will discuss each separately. However, Staff will combine the discussions of the adjustments for Salaries, Wages and Payroll Taxes.

Operating Income Adjustments – Salaries, Wages and Payroll Taxes

Q. Why did Staff include adjustments related to Salaries, Wages and Payroll Taxes?

A. In response to Staff's DR GM TBH 1.24, the Company stated that the employee in this position works for all the affiliated water companies and also provides support related to Mr. Paul Levie's property management activities. Staff reclassified these expenses in order to reflect the cost allocations as shown on Schedule TBH GM-20f.

1 **Q. Does Staff agree with the Company's current allocation method for salaries, wages**
2 **and payroll taxes between Chino Meadows and Granite Mountain?**

3 A. No. The Company stated that 40 percent of this employee's salary was paid by Granite
4 Mountain. However, Staff recommends that the test year's salary and wages be determined
5 using the 4-factor cost allocation method.

6
7 **Q. Please describe Staff's reclassification adjustment to Salaries and Wages for Payroll**
8 **Taxes.**

9 A. Staff reclassified payroll taxes of \$15,718, resulting in a decrease to Salaries and Wages as
10 shown on Schedule TBH GM-20b line 16. Staff's reclassification of payroll taxes is based on
11 actual and estimated payroll taxes reflecting a reasonable salary and salary increase. Staff
12 adjusted the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries
13 and Wages Calculation Schedule TBH GM-20f.

14
15 *Operating Income Adjustments - Repairs and Maintenance*

16 **Q. Please describe Staff's reclassification adjustments related to Repairs and**
17 **Maintenance expenses.**

18 A. Staff reclassified expenses to plant in service for \$539 for Chino Meadows, as shown on
19 Schedules TBH GM-20b. Staff determined that Granite Mountain incurred expenses for
20 Repairs and Maintenance of \$1,820 that need to be reclassified to be included in the cost
21 allocations as shown on Schedule TBH GM-20b.

22
23 **Q. What is Staff's recommendation?**

24 A. Staff recommends increasing test year repairs and maintenance expenses by the amount of
25 \$1,281, as shown on Schedule TBH GM-20b.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's reclassification adjustments for Office Supplies.

A. Staff reclassified the rent expense of \$12,000 from Chino Meadows that was misclassified to Office Supplies, as shown on Schedule TBH GM-20b.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year office supplies expenses by the amount of \$12,000, as shown on Schedule TBH GM-20b.

Operating Income Adjustments – Rent

Q. Please describe Staff's reclassification adjustments for Rent.

A. Staff reclassified the rent expense of \$12,000 for Chino Meadows that was misclassified to Office Supplies, as shown on Schedule TBH GM-20b.

Q. Where is the administrative office located and who owns the property?

A. 501 North Highway 89, Chino Valley Arizona 86323 is owned by Mr. Dewey J. Levie, Mr. Paul Levie's son.

Q. How much is the full rent for the administrative office and allocation to Chino Meadows and Granite Mountain?

A. Per the rental agreement dated December 15, 2011, provided in response to DR's CM TBH 1.30 and GM TBH 1.29, the monthly rent is \$1,250 for a total of \$15,000 per year to Mr. Dewey J. Levie. In the Company's response to DR's CM TBH 1.30d and GM 1.29d, "Chino Meadows is required to pay yearly rent of \$15,000 (\$1,250 per month). During the test year, the rent was 20 percent to Granite Mountain (\$3,000) and 80 percent to Chino Meadows (\$12,000). No other entities pay rent."

1 Q. Did the administration offices and water company employees support Mr. Paul
2 Levie's property management activities?

3 A. Yes. According to the Company's response to DR CM TBH 1.14 and DR GM TBH 1.15 on
4 Shared Facilities Allocations, the administration office supports Mr. Paul Levie's property
5 management activities. In addition to the office space, the administrative water company
6 employees support Mr. Paul Levie's property management activities.

7
8 Q. Did Staff research local office space commercial lease/rental information for
9 comparative and market prices?

10 A. Yes. Staff researched current leases available in Chino Valley using the website *Loopnet* on
11 November 4, 2014 and May 12, 2015. According to the website, the market rates on an
12 annual basis are approximately \$7,600 for a space of 756 to 950 square feet space. The
13 market price ranges from \$8 to \$10 per square foot per year. Staff has provided the May 12,
14 2015 information in Exhibit 1.

15
16 Q. Did Staff request information regarding the business office of the Company?

17 A. Yes, in DR's CM TBH 1.30 and GM TBH 1.29, Staff requested information regarding the
18 address of the office building, owner of the office building and relationship to Mr. Paul Levie,
19 rental agreements, number and names of all regulated and unregulated businesses that operate
20 from the building, monthly rents for all businesses from the building, actual annual costs and
21 the square footage of the building.
22

1 **Q. Did Staff estimate the square footage of the building occupied by the Company's**
2 **employees allocated to the water companies?**

3 A. Yes. Staff estimated that 75 percent of the office space is occupied by the Company's
4 employees allocated to the water companies. Additionally, Staff has allocated this percentage
5 through the 4-factor allocation methodology.

6
7 **Q. Did Staff allocate a percentage of the square footage of the building to unregulated**
8 **affiliated companies?**

9 A. Yes, based upon observation made during the office visits on September 25, 2014, December
10 10, 2014 and January 25, 2015. Staff estimated that 25 percent of the office space is occupied
11 by the unregulated affiliated businesses as well as the office for Mr. Dewey J. Levie. Staff has
12 disallowed this percentage through the 4-factor allocation as shown on Schedule TBH GM-
13 20a.

14
15 **Q. What did the Company provide for the square footage of the building located at 501**
16 **North Highway 89, Chino Valley Arizona 86323?**

17 A. In response to Staff's DR's CM TBH 1.30 and GM TBH 1.29, the Company stated the
18 building contains 2,280 square feet.

19
20 **Q. What is the lease cost per square foot per year for the building located at 501 North**
21 **Highway 89, Chino Valley, Arizona 86323 based on the current lease agreement?**

22 A. Based on the current annual rent of \$15,000 per year and the building's 2,280 square feet, the
23 lease amount per square foot per year is approximately \$6.58.
24

1 **Q. What is Staff's recommendation?**

2 A. Staff recommends increasing test year rent expenses by the amount of \$12,000, as shown on
3 Schedule TBH GM-20b. Staff notes that the combined rent for both Chino Meadows and
4 Granite Mountain is \$15,000. However, Staff allocates the rent expense using the 4-factor
5 allocation as shown on Schedule TBH GM-20a.
6

7 *Operating Income Adjustments – Contractual Services*

8 **Q. Please describe Staff's reclassification adjustments for Contractual Services.**

9 A. Staff reclassified the contractual services expense of \$500 for a land survey that is a direct
10 expense for Granite Mountain, as shown on Schedule TBH GM-20b. Staff properly allocated
11 the land survey as a direct expense to Granite Mountain as shown on Schedule TBH GM-5,
12 line 18.
13

14 **Q. What is Staff's recommendation?**

15 A. Staff recommends decreasing test year contractual services expenses by the amount of \$500,
16 as shown on Schedule TBH GM-20b.
17

18 *Operating Income Adjustments – Transportation*

19 **Q. Please describe Staff's reclassification adjustments for Transportation.**

20 A. Staff determined that Granite Mountain incurred expenses for Transportation of \$1,817 that
21 are reclassified in order to be included in the cost allocations as shown on Schedule TBH
22 GM-20b.
23

24 **Q. What is Staff's recommendation?**

25 A. Staff recommends increasing test year transportation expenses by the amount of \$1,817, as
26 shown on Schedule TBH GM-20b.

Operating Income Adjustments – Miscellaneous

Q. Please describe Staff's reclassification adjustments for Miscellaneous.

A. Staff's adjustments reflect pro forma corrections for errors made by Chino Meadows of \$3,397. The Company's original adjustments were to reclassify the interest paid on customer deposits from interest expense to miscellaneous expense as shown on Chino Meadows Attachment No. 2 Supplemental Page 5 for an increase of \$554 and to reclassify the bad debt expense from miscellaneous to bad debt expense for a decrease of \$1,990. The net result of Chino Meadows' pro forma adjustment is a decrease to miscellaneous expenses of \$1,435, and Chino Meadows' proposed expense of \$8,848. Staff reviewed the general ledger and determined the total bad debt expense was actually \$4,990, a difference of \$3,000. Staff reversed the interest expense adjustment made by Chino Meadows of \$554 and reclassified the collection fees for bad debt expenses from miscellaneous expense of \$157. The net result of Staff's adjustments to Chino Meadows' pro forma adjustments is a decrease of \$3,397 as shown on Schedule TBH GM-20b.

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year miscellaneous expenses by the amount of \$3,397, as shown on Schedule TBH GM-20b.

Disallowances

Q. Did Staff disallow expenses for Salaries and Wages, Salaries and Wages – Officers, Purchased Power, Repairs and Maintenance, Office Supplies, Contractual Services, Transportation, Insurance – General Liability, Miscellaneous and Payroll Taxes?

A. Yes. Staff disallowed expenses to each of the classifications listed above as shown on Schedule TBH GM-20c. Staff will discuss each separately. However, Staff will combine the discussions of the adjustments for Salaries, Wages and Payroll Taxes.

Operating Income Adjustments – Salaries, Wages and Payroll Taxes

Q. Who are the owners of Granite Mountain?

A. Mr. and Mrs. Paul and Rae Levie.

Q. In addition to Granite Mountain, do Mr. and Mrs. Paul Levie own any other regulated utilities or unregulated affiliates?

A. Yes. Mr. and Mrs. Paul Levie own Chino Meadows and Antelope Lakes Water Company, and they own numerous unregulated affiliated companies including rental properties.

Q. Did Staff inquire if employees of the water companies work for any unregulated companies of the owners; hours worked per week; and specific employees?

A. Yes. Staff requested this information in DR CM TBH 2.12h and DR GM TBH 2.5g.

Q. What details did Chino Meadows and Granite Mountain provide regarding its employees that also work for Mr. and Mrs. Paul Levie's unregulated affiliated companies?

A. Chino Meadows' response to Staff's DR CM TBH 2.12h stated that the Administrative Assistant and Operations Manager positions provided support for Mr. and Mrs. Paul Levie's property management activities. The positions are not paid separately for these activities. Chino Meadows estimated that the Administrative Assistant position works up to 2 hours per week on property management activities. Chino Meadows estimated that the Operations Manager position works up to 4 hours per week on property management activities. Granite Mountain's response to Staff's DR GM TBH 2.5g stated that the Administrative Assistant position provided support for Mr. and Mrs. Paul Levie's property management activities. The positions are not paid separately for these activities. Granite Mountain estimated that the

Administrative Assistant position works up to 16 hours per week on property management activities.

Q. Did Granite Mountain provide support for the actual amount of labor expense that was directly incurred for Mr. and Mrs. Paul Levie's unregulated affiliated companies?

A. No. Granite Mountain did not provide any time sheets that document the amount of time they spend working for the unregulated affiliated companies.

Q. Please describe Staff's disallowance adjustments for Salaries, Wages and Payroll Taxes.

A. Staff disallowed the salaries, wages and payroll taxes based on the number of hours worked by Chino Meadows and Granite Mountain employees for Mr. Paul Levie's unregulated businesses. Staff disallowed \$17,444 for salaries and wages, and \$1,539 for payroll taxes associated with those salaries and wages, as shown on Schedule TBH GM-20c. Staff adjusted the test year salaries, wages and payroll taxes as shown on the Allocations for Salaries and Wages Calculation Schedule TBH GM-20f.

Operating Income Adjustments – Salaries and Wages - Officers

Q. What is Chino Meadows and Granite Mountain proposing for employee salary and wages expense for Officers, Directors and Stockholders?

A. Chino Meadows is proposing \$31,700⁴ and Granite Mountain is proposing \$6,000 for the salary and wages of the Officers, Directors and Stockholders of the Company.

Q. Who were the payments paid to?

A. Paul D. Levie P.C.

⁴ In response to DR CM TBH 1.26h, Mr. Paul Levie's total salary is \$38,400 in compensation for the test year. However, the allocation was \$31,700 for Chino Meadows at 84% and \$6,000 for Granite Mountain at 16% for a total of \$37,700.

1 **Q. How many businesses does Mr. Paul Levie operate or list as located at the business**
2 **office as 501 North Highway 89, Chino Valley, Arizona 86323?**

3 **A. According to DR's CM TBH 1.30 and GM TBH 1.29, Mr. Paul Levie operates thirteen**
4 **businesses. Those businesses are: Chino Meadows, Granite Mountain, Antelope Lakes,**
5 **Equestrian Development Corporation, Equestrian Construction, LLC, LL&M Development,**
6 **LLC, Levie -Antelope Lakes Development Inc., CityofPrescott.com LLC, Paul D. and Rae**
7 **Levie Living Trust, Paul D. and Rae Levie Family Corporation, The Levie Family**
8 **Foundation, Levie Family Limited Partnership, and Levie Realty & Investment LLC.**
9 **According to DR CM TBH 1.30, Mr. Paul Levie's following businesses are inactive business**
10 **entities: Paul D. Levie Inc., Antelope Lakes Sewer, LLC, Raven Water Company, LLC, and**
11 **Raven Sewer Company LLC.**

12
13 **Q. Does Mr. Paul Levie maintain a time sheet showing the number of hours per day**
14 **spent working for each of his thirteen active business entities?**

15 **A. No. Mr. Paul Levie does not maintain time sheets that document the amount of time he**
16 **spends each day working on each of his thirteen active business entities.**

17
18 **Q. Did Chino Meadow or Granite Mountain provide support or documentation to**
19 **support the \$31,700 charged to Chino Meadows or the \$6,000 charged to Granite**
20 **Mountain?**

21 **A. No, it did not.**

22
23 **Q. Did Chino Meadows and Granite Mountain provide an explanation on how the level**
24 **of salary for Mr. Paul Levie was determined? If yes, please describe.**

25 **A. Yes. The Company stated in DR's CM TBH 1.26h and GM TBH 1.25h, "Mr. Levie's**
26 **compensation is based on an annual salary of \$76,800. As a half-time employee for Chino**

1 Meadows and Granite Mountain. Mr. Levie was scheduled for \$38,400 in compensation for
2 the test year.”

3
4 **Q. What are Mr. Paul Levie's duties as described by Chino Meadows in DR CM TBH**
5 **1.26 and Granite Mountain in DR GM TBH 1.25?**

6 A. The duties are: supervision and management of company personnel; oversight of company
7 operations; provision of strategic direction; review of company financial data including
8 payables, receivable, revenue and expenses; provision of legal representation for Company;
9 review of payroll and signing of checks; review and authorization of all vendor payments;
10 acquisition, regulation and oversight of company loans and long-term debts; meeting with
11 operations management to review capital program, address operational issues and ensure
12 proper facilities and equipment are available; development and review of company processes
13 and procedures to ensure regulatory compliance; and review and advise the Company on
14 manuals such as employee handbook and emergency response manual.

15
16 **Q. What are the duties of the Operations Manager⁵?**

17 A. The duties are: oversees and runs all daily operations; directs and assists administrative staff
18 and field techs; manages day to day operation of the company's facilities and personnel to
19 ensure distribution of safe water to customer, provides customer services and assures
20 compliance with regulatory requirements, manages Company's capital projects, and reviews
21 and authorizes vendor payments.

22
23 **Q. Did Staff make any adjustment to the total number of hours worked?**

24 A. Yes. Staff reviewed and adjusted the total number of hours worked based on the
25 following:(1) thirteen businesses are operating from the office (2) no time sheets were

⁵ List of duties compiled from original application, responses by Chino Meadows to Staff's DR's CM TBH 1.25, CM TBH 2.12 and CM TBH 3.7.

1 maintained and no time study was conducted, (3) some of the duties appeared to duplicate
2 the duties of another employee at the office, and (4) some of the time estimated seem high.
3 Staff's adjusted hours are shown on Schedule TBH GM-20g and then adjusted for the
4 additional salary increase of \$4,673 for the Operations Manager from \$50,683 in 2013 to
5 \$55,356 in 2014.

6
7 **Q. Please discuss Staff's recommended decrease of \$17,444 to salaries and wages expense**
8 **for Officers, Directors and Stockholders, adjustment in further detail.**

9 A. Staff recommends removing \$11,761 in salaries and wages expense for Officers, Directors
10 and Stockholders. Staff adjusted Chino Meadows and Granite Mountain's proposed amounts
11 owing to Mr. Paul Levie due to the amount of time Staff was able to identify that Mr. Paul
12 Levie was out of town. Staff adjusted one-third of the proposed salary based on the
13 description of Mr. Paul Levie's duties in both Chino Meadows' and Granite Mountain's
14 responses to DR's CM TBH 1.26g and GM TBH 1.25f. Additionally, Staff decreased Mr.
15 Paul Levie's salary due to the increase for Operations Manager from 2013 to 2014. Chino
16 Meadows provided the information about the increased duties in response to DR's CM TBH
17 2.12 and CM TBH 3.7. The Operations Manager salary in 2013 was \$50,683 and in 2014 it
18 was \$55,356 for an increase of \$4,673. Staff further recommends removing the \$4,673 in
19 salaries and wages expense for Officers, Directors and Stockholders as shown on Schedule
20 TBH GM-20g line 21. Staff decreased the same from the Mr. Paul Levie's salaries and wages
21 to reflect the additional duties and responsibilities of the Operations Manager. Staff further
22 recommends that Chino Meadows and Granite Mountain have available a time study (and
23 underlying detailed time sheets) to evidence the amount of direct labor hours that Mr. Paul
24 Levie spends on activities related to Chino Meadow and Granite Mountain for recovery of
25 that expense in future rate cases.
26

Operating Income Adjustments – Purchased Power

Q. Please describe Staff's disallowance adjustments for Purchased Power.

A. Staff disallowed the late fees of \$46 to Purchased Power, as shown on Schedule TBH GM-20c. While this is a small amount, ratepayers should not be responsible for any level of late fees when bills are not paid on a timely basis. Also other late fees were removed as part of other adjustments recommended by Staff.

Operating Income Adjustments – Repairs and Maintenance

Q. Please describe Staff's disallowance adjustments for Repairs and Maintenance.

A. Staff disallowed transactions that were not needed in the provision of service such as repair material costs to personal residences or rental properties for \$124, as shown on Schedule TBH GM-20c.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's disallowance adjustments for Office Supplies.

A. Staff disallowed transactions that were not needed in the provision of services. Staff removed \$44 for interest and late fees; \$1,888 for Mrs. Rae Levie's cell phone and charges, collect calls, Mr. Paul Levie's international call plan and international calls; \$218 for personal meals; \$524 for miscellaneous personal expenses; and \$130 for expense outside the test year, as shown on Schedule TBH GM-20c. The total adjustment recommended by Staff is a decrease of \$2,804.

Operating Income Adjustments – Contractual Services

Q. Please describe Staff's disallowance adjustments for Contractual Services.

A. Staff removed \$1,232 for legal fees non-recurring related to the office fire, as shown on Schedule TBH GM-20c.

Operating Income Adjustments – Transportation

Q. Please describe Staff's disallowance adjustments for Transportation.

A. Staff disallowed transactions that were not needed in the provision of services. Staff removed \$800 for gas reimbursements of \$100 per month for the administrative office employees; \$2,497 for several unsupported purchases of vehicle tires; \$2,229 for out of state gasoline purchases for Mr. Paul Levie; and \$1,854 for the bulk purchase of 530 gallons of gasoline delivered to Mr. Paul Levie's personal residence, as shown on Schedule TBH GM-20c.

Q. Did Chino Meadows provide additional information in support of these disallowed transportation expenses?

A. Yes. Chino Meadows stated that it no longer provides the gas reimbursement to employees. Staff requested support for the tires in Staff's DR CM TBH 3.4d and the Company stated it was unable to locate the requested receipts. According to Chino Meadows' response to Staff's DR CM TBH 3.4(g), the Company stated, "Mr. Levie maintains a bulk fuel tank at his home office location. Fuel from the tank is used for Mr. & Mrs. Levie's vehicles. The Company estimates the one-half of the fuel was used for business purposes."

Q. What is Staff's recommendation?

A. Staff recommends decreasing test year transportation expenses in the amount of \$7,380, as shown on Schedule TBH GM-20c.

Operating Income Adjustments – Insurance – General Liability

Q. Please describe Staff's disallowance adjustments for Insurance - General Liability.

A. Staff removed \$1,058 for vehicle AZ-1 owned by an unregulated affiliated company per the Company's response to DR CM TBH 1.39, as shown on Schedule TBH GM-20c.

1 **Q. What is Chino Meadows proposing for general – liability insurance expenses?**

2 A. Chino Meadows proposed \$8,964 for the adjusted test year expense.

3
4 **Q. Who is insured by Chino Meadows' proposed insurance – general liability policy?**

5 A. Chino Meadows' cost for general liability insurance policy includes the following named
6 insured as provided in response to Staff's DR CM TBH 1.39: Granite Mountain Water
7 Company, Antelope Lakes Water Company, Inc., Wineglass Water Company, Inc.,
8 Equestrian Construction, LLC (For Automobile Coverage Only) , Equestrian Development
9 Corp., Paul D. & Rae Levie Trust DTD 11/20/73, Levie-Antelope Lakes Development, Inc.,
10 LL&M Development, LLC, Levie Family Limited Partnership, and Payette Heights
11 Development Corp.

12
13 **Q. Did Staff request an explanation about the insurance policy and why it included**
14 **regulated and unregulated affiliated companies and why the policy was paid**
15 **exclusively by Chino Meadows and Granite Mountain?**

16 A. Yes. Staff requested in DR CM TBH 2.2, costs for each company, cost of auto insurance, an
17 explanation why the General Liability Insurance was billed for and paid by Chino Meadows
18 and Granite Mountain, requested documentation about reimbursements back to Chino
19 Meadows and the number of years the policy was billed and paid by Chino Meadows. Chino
20 Meadows stated there is no breakdown for each insured due to the blanket policy.

21
22 **Q. What is Staff's recommendation?**

23 A. Staff recommends decreasing test year expense in the amount of \$1,058, as shown on
24 Schedule TBH GM-20c. Staff's adjustments reflect the removal of \$1,058 of the insurance
25 for personal vehicle use costs for an unregulated company. Additionally, the unregulated
26 affiliates should obtain a separate policy from the regulated water companies. A separate

1 policy would protect ratepayers from insurance cost increases that could result if a non-utility
2 vehicle suffered a loss which increased future insurance premiums.

3
4 *Operating Income Adjustments – Miscellaneous*

5 **Q. What recommendation is Staff making regarding miscellaneous expenses?**

6 A. Staff recommends disallowance of \$1,559 for gifts; \$683 for food, beverages and similar
7 costs; and \$60 for donations, as shown on Schedule TBH GM-20c, for a total reduction of
8 \$2,301 from actual recorded test year miscellaneous expense.

9
10 *Normalization*

11 **Q. Did Staff normalize expenses for Salaries and Wages, Office Supplies, Transportation,
12 and Insurance – General Liability?**

13 A. Yes. Staff normalized expenses to each of classifications listed above as shown on Schedule
14 TBH GM-20d. Staff will discuss each separately.

15
16 *Operating Income Adjustments – Salaries and Wages*

17 **Q. What is Chino Meadows proposing for employee salary and wages expense?**

18 A. Chino Meadows is proposing \$211,665 for salaries and wages. The amount is composed of
19 \$179,965 for the actual test year for all employees that include payroll taxes and a \$15,000⁶
20 pro forma adjustment to reflect a salary increase. Chino Meadows states that \$31,700 is for
21 the salary and wages of the Officers of the Company.

22

⁶ In Chino Meadows' application, Attachment No. 2 Supplemental Page 4 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is \$20,000 with 75% percentage allocated to Chino Meadows.

1 **Q. What is Granite Mountain proposing for salaries and wages expense?**

2 A. Granite Mountain is proposing \$38,942 for employee salaries and wages net of salaries and
3 wages for Officers. The amount is composed of \$ 33,942 for actual test year expenses and a
4 \$5,000⁷ pro forma salary increase.

5
6 **Q. What is the combined pro forma salary and wage increase for both Chino Meadows
7 and Granite Mountain?**

8 A. The combined pro forma salary and wage increase is \$20,000. Chino Meadow has been
9 allocated 75 percent (\$15,000) and Granite Mountain 25 percent (\$5,000).

10
11 **Q. Are test year expenses representative of average salaries and wages expenses for
12 Chino Meadows and Granite Mountain? Please explain.**

13 A. No. Chino Meadows test year expenses included two employees final paychecks that are
14 outside normal salary expenses, a \$13,000 bonus for the Operations Manager to adjust pay to
15 match responsibilities, \$4,000 for other employee bonuses, and several incremental increases
16 for the Administrative Assistant and temporary employees. Granite Mountain test year
17 expenses included one final paycheck that are outside normal salaries expenses, \$2,500 bonus
18 for the retired Administrative Assistant and \$1,000 for other employee bonuses. The
19 employee for Granite Mountain worked for the Company for 25 years and retired from the
20 water companies in October 2013.
21

⁷ In Granite Mountain's application, Attachment No. 2 Supplemental Page 5 for Income Statement Adjustment IS-2 the total 2014 increase in employee salary is \$20,000 with 25% percentage allocated to Granite Mountain.

1 **Q. Please discuss Staff's recommended \$160,638 for salaries and wages expense and**
2 **\$14,179 for payroll taxes in further detail.**

3 **A.** Staff's adjustments reflect the actual salaries for the Operations Manager and Administrative
4 Assistants provided in responses to DR's CM TBH-2.12b, CM TBH 3.7 and GM TBH-2.5g.
5 Staff's adjustments reflect the estimated salaries for the two field technicians with increases
6 using the information provided by Chino Meadows to DR CM TBH 1.25. Based on the
7 information provided, Staff determined that \$178,082 in salary and wages and \$15,718 in
8 payroll taxes adjusted for the inclusion of any salary increases as shown on Schedule TBH
9 GM-20f line 7. Staff adjusted the salaries, wages and payroll taxes for the Operations
10 Manager and Administrative Assistants for hours worked for the unregulated affiliated
11 companies as shown on Schedule TBH GM-20f Columns F and G. Staff adjusted the salaries
12 and wages to \$160,638 and payroll taxes to \$14,179 in order to normalize these expenses for
13 the test year.

14
15 **Q. Please describe Staff's normalization adjustments for Salaries and Wages.**

16 **A.** Staff normalized salaries and wages by \$13,384 based on the current and estimated salaries
17 and wages for the five employees of the water companies as shown on Schedule TBH GM-
18 20f. Staff determined current and estimated hourly rates and wages based on a regular 40
19 hour work week over a calendar year. Staff reclassified the payroll taxes and disallowed the
20 salaries, wages and payroll taxes for the hours worked for the unregulated affiliated
21 companies to determine the adjusted salaries, wages and payroll taxes for the test year as
22 shown on Schedule TBH GM-20d.

23
24 **Q. What is Staff's recommendation?**

25 **A.** Staff recommends an increase of \$13,834 for the test year salaries and wages expense as
26 shown on Schedule TBH GM-20f, line 7.

Operating Income Adjustments – Office Supplies

Q. Please describe Staff's normalization adjustments for Office Supplies.

A. Staff normalized service contract costs for arrangements that extended for more than one year. Staff divided the number of years by the total cost. Staff adjusted for the normalization of expenses by decreasing operating expenses by \$208, as shown on Schedule TBH GM-20d.

Operating Income Adjustments – Transportation

Q. Please describe Staff's normalization adjustments for Transportation.

A. Staff normalized the vehicle registrations fees by averaging over two years. Staff adjusted for the normalization of expenses by decreasing operating expenses by \$186, as shown on Schedule TBH GM-20d.

Operating Income Adjustments – Insurance – General Liability

Q. Please describe Staff's normalization adjustments for Insurance – General Liability.

A. Staff normalized refunds received from the insurance company that applied to general liability expense. The refunds reduced the current amount for the general liability insurance. Staff adjusted for the normalization of expenses by increasing operating expenses by \$594, as shown on Schedule TBH GM-20d.

Cost Allocations

Cost Allocations – This adjustment allocates indirect expenses paid by Chino Meadows directly to Granite Mountain. Staff recommends use of a 4-factor allocation be utilized by all three regulated affiliated water companies (Chino Meadows, Granite Mountain and Antelope Lakes) and by the unregulated affiliated companies.

1 Q. Has Staff identified additional expenses that should be allocated to the unregulated
2 affiliated companies? If so, please explain.

3 A. Yes. Staff identified the following expenses: salaries and wages of \$17,444 and payroll taxes
4 of \$1,539 for a total of \$18,892 due to the disallowance of hours working for Mr. Paul Levie's
5 property management activities as shown on Schedule TBH GM-20c.

6
7 Q. What is the percentage for Antelope Lakes and Chino Meadows using Staff's
8 recommended 4-factor cost allocation?

9 A. Antelope Lakes' 4-factor allocation is 2.95 percent and Chino Meadows' 4-factor allocation is
10 70.12 percent, as shown on Schedule TBH GM-20e.

11
12 Q. What is the percentage for Granite Mountain using Staff's recommended 4-factor cost
13 allocation?

14 A. Granite Mountain's 4-factor allocation is 26.93 percent, as shown on Schedule TBH GM-20e.

15
16 Q. What are the adjustments for cost allocations to Granite Mountain using Staff's
17 recommended 4-factor cost allocation?

18 A. Staff's cost allocations net of all adjustments for all thirteen expense categories totaling an
19 increase of \$14,603 are as follows: Salaries and Wages increases by \$4,319, Salaries and Wages
20 – Officers decreases by \$273, Purchased Power increases by \$356; Chemicals increases by
21 \$80; Repairs and Maintenance decreases by \$7; Office Supplies decreases by \$974; Rent
22 increases by \$3,030; Contractual Services increases by \$1,322; Transportation increases by
23 \$1,301, Insurance – General Liability increases by \$882; Insurance – Health and Life increases
24 by \$718; Miscellaneous increases by \$30; and Payroll Taxes increases by \$3,819, as shown on
25 Schedule TBH GM-20a.
26

Operating Income Adjustment No. 9 - Depreciation Expense

Q. What is the Company proposing for depreciation expense?

A. The Company proposed \$27,096 for the adjusted test year depreciation expense.

Q. Is the Company proposing different depreciation rates than those recommended by Staff in Decision No. 71869?

A. Yes, the Company is proposing to change the pumping equipment rate from 12.5 percent to 5.0 percent and transportation equipment from 20.0 percent to 15.0 percent as shown on Attachment 2 Supplemental Page 9. The Company stated in the application that the current depreciation rates caused Pumping Plant and Transportation accounts to become fully depreciated even though the underlying plant has significant useful life.

Q. Does Staff agree with the Company's proposed depreciation rates?

A. No. Staff recommends the depreciation rates as recommended in the Engineering Report.

Q. Does Staff recommend any modifications to the Company's proposed depreciation expense calculation?

A. Yes. Staff calculated depreciation expense by applying its recommended depreciation rates (the same rates adopted by the Commission in the prior rate case) to its recommended plant balances.

Q. What is Staff's recommendation?

A. Staff recommends \$37,468 for depreciation expense, an increase of \$10,372 from the Company's proposed amount, as shown on Schedule TBH GM-21.

Operating Income Adjustment No. 10 - Property Tax Expense

Q. What is Granite Mountain proposing for Test Year Property Taxes?

A. Granite Mountain is proposing \$5,052 for the adjusted test year property tax expense.

Q. Did Staff make adjustments for CWIP for the Property Tax Calculation?

A. Staff adjusted the CWIP accounts as shown on Schedule TBH GM-24. The adjustment is included on Schedule TBH GM-22 Line 10.

Q. What is Staff's recommendation for test year Property Tax Expense?

A. Staff recommends \$4,523 for test year property tax expense, a \$529 decrease to the Company's proposed amount, as shown on Schedule TBH GM-22. Staff further recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a factor for Property Tax Expense, as shown on Schedule TBH GM-2.

Operating Income Adjustment No. 11 - Income Taxes

Q. Did Staff make an adjustment to test year Income Tax Expense?

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Schedule TBH GM-11.

IX. REVENUES NOT COLLECTED PROPERLY

Q. What was the Company ordered to do in Decision No. 71869 with respect to free and discounted water?

A. In Decision No. 71869, the Commission determined that Granite Mountain lost significant revenues due to failing to properly monitor the meters on its system and intentionally providing free and discounted water to the owner's son and the owner's development and

1 ordered the Company to immediately cease providing water without charge and immediately
2 cease providing water at a discounted rate. Additionally, the Company was ordered to
3 provide water only in accordance with the rates and charges that have been specifically
4 authorized by the Commission.

5
6 **Q. Please explain what Staff reviewed and observed during the course of the audit for**
7 **those specific accounts from Decision No. 71869?**

8 A. Staff reviewed the account history from the date of the last decision through the test year to
9 ensure that these accounts were being billed and collected properly. During the field visit on
10 September 25, 2014, Staff went to every meter listed in the last decision to observe if the
11 meters were operating properly.

12
13 **Q. During the course of the current audit, did Staff review all the customer accounts**
14 **noted in Decision No. 71869⁸ as receiving discounted or free water?**

15 A. Yes. There were accounts for individuals related to the owners of Granite Mountain.
16

17 **Q. Did Staff find any account activity discrepancies for those specific accounts from**
18 **Decision No. 71869? If yes, please explain.**

19 A. Yes, Staff reviewed the account history from the date of the last decision through the test
20 year and found that the Company failed to properly collect for the two accounts noted in
21 Decision No. 71869. The accounts referred to as Daniel's Home Property (80.002.01) and
22 Stables Property (80.001.02). These accounts belong to Daniel P. Levie, the son of the
23 owners, Paul and Rae Levie.
24

⁸ Decision No. 71869, Page 15 Number Findings of Facts no.62 provides the list of meters unread and not billed properly (7 meters). Additionally, two meters were added that received free and discounted water Page 23 Number Findings of Facts no.84.

1 **Q. Please explain what Staff found on water account 80.002.01 – Daniel's Home Property.**

2 A. Staff found that Daniel's Home Property (Account 80.002.01) did not reflect any payments
3 from December 2011 through the end of test year. However, the Company stated that the
4 adjustment to remove \$1,564.42 on December 10, 2013 was at the direction of Mr. Paul Levie
5 for a water leak and late fees. The account had abnormally high consumption in March 2013
6 to April 2013. The balance due through the end of the test year with the adjustment reversed
7 is \$7,265.68 as shown on Schedule TBH GM-24. The Company provided a copy of a check
8 (Check No. 5403) to Danny Levie dated December 31, 2013 for Construction Work in
9 Progress for Well No. 5 in the amount of \$3,500. The check memo reads "for prep work and
10 installing of 2 pipes, back hoe Bobcat and gradework at Short Spur Well". Additionally, the
11 Company did not provide an invoice and the work was done through a verbal agreement.
12 Staff has disallowed the \$3,500 for the Post-Test Year Plant of Well No. 6. Staff requested a
13 copy of the cancelled check and the Company stated that Check No. 5403 was voided and the
14 amount was offset to balance owed by Daniel Levie. Staff reviewed the account history and
15 \$3,500 was placed on the account on January 7, 2014 and a payment of \$2,201.26 was paid by
16 Mr. Paul Levie through Paul D. and Rae Levie Trust on January 10, 2014.

17
18 **Q. Are the adjustments to water account 80.002.01 – Daniel's Home Property**
19 **appropriate?**

20 A. No.

21
22 **Q. Please explain why these adjustments to water account 80.002.01 – Daniel's Home**
23 **Property are inappropriate.**

24 A. The adjustment for \$1,564.42 on December 10, 2013 was at the direction of Mr. Paul Levie
25 for a water leak and late fees. This is not appropriate since it is metered water and therefore a
26 discount provided more than eight months after the abnormally high usage. Additionally, this

1 is related party and unfair favoritism was provided to his son and Mr. Paul Levie since the
2 payment came directly for the family trust. The adjustment for \$3,500 is not appropriate due
3 to the misleading information provided by Company as to the payment to Daniel Levie for
4 Post-Test Year Plant on Well No. 6 and the adjustment to his water account. This activity
5 was not an arm's length transaction and was not properly documented for rate making
6 purposes. Additionally, this activity is not proper or acceptable accounting practices
7 according to Generally Accepted Accounting Principles.

8
9 **Q. Please explain what Staff found on water account 80.001.02 – Stables Property.**

10 A. Staff found that Stables Property (Account 80.001.02) made only sporadic payments and has
11 not been fully collected since September 2010. The balance due through the end of the test
12 year is \$1,157.28 as shown on Schedule TBH GM-24.

13
14 **Q. Did Staff find additional related party water accounts that were not properly collected?**
15 **If yes, please explain.**

16 A. Yes. Due to the two accounts listed above, Staff reviewed all of the accounts receivable and
17 found two additional accounts owned by Daniel Levie that were delinquent as well. Account
18 81.002.01 is for the mobile homes on the Stables Property and did not make any payments
19 from July 2011 through the end of test year. The balance at the end of the test year is
20 \$7,759.51 as shown on Schedule TBH GM-25. A payment of \$7,759.51 was paid by Mr. Paul
21 Levie through Paul D. and Rae Levie Trust on January 10, 2014. Account 80.012.00 for
22 Daniel Levie did not make any payments from July 2011 through the end of test year. The
23 balance at the end of the test year is \$1,186.88 as shown on Schedule TBH GM-25. A
24 payment of \$1,186.88 was paid by Mr. Paul Levie through Paul D. and Rae Levie Trust on
25 January 10, 2014.

1 **Q. Did the Company explain why these water accounts were not paid by Daniel Levie?**

2 A. Yes. The Company stated in response to DR GM TBH 2.9, "After investigation it was
3 determined that the bill was being sent to Daniel Levie's home address in the Granite
4 Mountain service area, a home occupied by Mr. Daniel Levie's ex-wife. Mr. Daniel Levie
5 resides in Utah and did not receive a copy of the billings."

6
7 **Q. After the issuance of Decision No. 71869, did the Company continue to improperly
8 collect revenues? If yes, please explain.**

9 A. Yes. The Company did not properly collect revenues on four water accounts for Daniel
10 Levie including the two from Decision No. 71869 as shown on Schedule TBH GM-25. Staff
11 adjusted the revenue on account 80.002.01 for Daniel Levie. Staffs total adjusted revenue not
12 properly collected at the end of the test year is \$17,369. There were 122 different occurrences
13 of monthly billing statements on these four water accounts not properly collected, as shown
14 on Schedule TBH GM-25.

15
16 **Q. What is Staff's recommendation since the Company did not properly collect as
17 ordered in Decision No. 71869?**

18 A. The Company appears to continue to show unwarranted favoritism towards accounts and
19 Staff believes that the Company should again be directed NOT to engage in such self-
20 dealings. Staff recommends that the Company be again ordered to cease providing
21 discounted or free water and appropriately collecting revenues from every recipient of water
22 from its system as ordered in Decision No. 71869. The Company has continually failed to
23 adhere to the Commission's orders. Based on the number of occurrences, the related party
24 favoritism and the self-serving transactions by the Company and family members, Staff
25 recommends that the Commission impose a penalty to the Company at the maximum
26 amount allowed pursuant to A.R.S. §§ 40-424 and 40-425 for the Company's failure to

1 appropriately collect revenues as ordered in Decision No. 71869. Staff recommends that the
2 Company be put on notice that any future violations should be met with penalties as well. As
3 noted, Staff is recommending that the Company develop, submit and precisely follow the
4 provisions of a Code of Affiliate Conduct.

5
6 **X. NOTES RECEIVABLE**

7 *Notes/Accounts Receivable to Associated/Affiliated Companies*

8 **Q. During the course of the current audit, did Staff find that Granite Mountain loaned**
9 **funds to Associated/Affiliated Companies?**

10 **A. Yes.**

11
12 **Q. Did Staff request additional information from the Company about Notes and Account**
13 **Receivable from Associated/Affiliated Companies?**

14 **A. Yes, in DR GM TBH 1.31.**

15
16 **Q. What information was provided by the Company in response to DR GM TBH 1.31?**

17 **A. The Company's response to DR GM TBH 1.31 included a schedule of the amounts due from**
18 **the affiliated companies and the amounts due through December 31, 2013⁹. The amounts**
19 **due are as follows for the test year: Chino Meadows – Other \$19,891, Antelope Lakes \$8,782,**
20 **GFL CMI Tract B Water Line \$15,196, PDL Trust \$15,000 and PDL Zooki on behalf on Mr.**
21 **Paul Levie's son, Mr. Daniel Levie \$260. The total is \$59,129.**
22

⁹ Staff requested a detailed schedule by month from January 2010 to December 31, 2013. Company provided detailed schedule through December 31, 2013.

1 **Q. Did the Company explain the receivable due from Antelope Lakes at the end of the**
2 **test year?**

3 A. Yes. The Company's response to DR GM TBH 1.31b stated with regards to the Antelope
4 Lake Water balance that "The balance is not a receivable in a traditional sense. The balance
5 would be properly characterized as an intercompany balance, similar as to what would be
6 recorded between a parent holding company and utility subsidiary companies or between
7 utility subsidiary company when cash is transferred from one utility subsidiary to the parent
8 holding company or another utility subsidiary and vice versa. Antelope Lakes is not required
9 to make any payments to Granite Mountain. Should Antelope Lakes provide funds to or on
10 behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the
11 end of the test year was \$8,782."

12
13 **Q. Did the Company explain the receivables due from Mr. Paul Levie and family**
14 **members in response to DR GM TBH 1.31b?**

15 A. Yes. The Company stated that the following are due and payable upon demand by Granite
16 Mountain. GFL CMI Tract B Water Line represents funds advanced to Desert Snow
17 Construction on behalf of Mr. Paul Levie for a waterline serving property owned by Mr. Paul
18 Levie. The property is not associated with any of the water utilities owned by Mr. Paul Levie.
19 The advances to PDL Trust represent funds for Mr. Paul Levie's personal uses. The
20 advances to PDL Zooki were on behalf of Mr. Paul Levie's son Daniel and these funds were
21 billed to Granite Mountain in error.

22
23 **Q. What is Staff's recommendation?**

24 A. Staff recommends that these considerations be incorporated as a part of the Code. Further,
25 Staff is recommending that the Company make due and payable upon demand all balances
26 due to the regulated water companies within one year from the Decision in this rate case.

1 Staff further recommends that the Company cease making any further personal loans or
2 advances with Company funds.

3
4 **XI. RATE DESIGN**

5 *Present Rate Design*

6 **Q. Please provide an overview of the Company's present rates.**

7 A. Present, Proposed, and Staff Recommended rate design are presented in Staff's Direct
8 Testimony Schedule TBH GM-26. The present rates went into effect September 1, 2010.
9 There are several meter sizes presently in use in the system. The 5/8 x 3/4-inch meter has a
10 three-tiered commodity rate structure with break-over points at 4,000 and 10,000 gallons.
11 The tier rates are \$4.40, \$6.60 and \$7.90 with a monthly minimum of \$25.00.

12
13 *Company's Proposed Water Rate Design*

14 **Q. Please provide an overview of the Company's proposed rate increases.**

15 A. The Company proposes break-over points at 3,000 and 8,000 gallons for all meter sizes and
16 increases the commodity tier rates from \$4.40 to \$6.80 (54.55 percent increase) for the first
17 tier, from \$6.60 to \$10.00 (51.52 percent increase) for the second tier and from \$7.90 to
18 \$12.00 (51.90 percent increase) for the third tier. Minimum Monthly charges are proposed to
19 increase from \$25.00 to \$38.50 (54.0 percent increase) for the 5/8 x 3/4-inch meter.

20
21 **Q. Did the Company propose any changes to Service Line and Meter Installation
22 Charges?**

23 A. Yes. The Company proposes an increase to each meter size. Staff has reviewed the
24 Company's proposed service line and meter installation charges and recommends approval of
25 those charges, as shown on Schedule TBH GM-26.
26

Staff's Recommended Water Rate Design

Q. Please provide a description of Staff's recommended rate design.

A. Staff recommends increases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch of \$35.00. Staff recommends break-over points at 3,000 and 10,000 gallons for the 5/8 x 3/4-inch. Staff recommends an increase to commodity rates in all three tiers. First tier commodity rate would increase by \$2.10 (47.73 percent) from \$4.40 per 1,000 gallons to \$6.50 per 1,000 gallons. Second tier commodity rate would increase by \$4.40 (66.67 percent) from \$6.60 per 1,000 gallons to \$11.00 per 1,000 gallons. Third tier commodity rates would increase by \$8.20 (103.80 percent) from \$7.90 per 1,000 gallons to \$16.10 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median use of 3,684 gallons would increase by \$20.81 (50.51 percent) from \$41.21 to \$62.02. Staff's recommended rates are shown in Schedule TBH GM-26 and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Schedule TBH GM-27.

Q. Did Staff prepare a Schedule showing the average and median monthly bill for present rates, Company's proposed and Staff's recommended rates?

A. Yes. Staff's Direct Testimony Schedule TBH GM-27 presents the average and median monthly bill for present rates, Company's proposed rates and Staff's recommended rates.

XII. SERVICE CHARGES

Q. Did the Company propose any changes to its Water System Service Charges?

A. Yes. The Company proposes to establish an after hour service charge (at customer request) of \$25.00. The current charges are \$0 and will increase to \$25.00.

Q. Please provide a description of Staff's recommended Water System Service Charges.

A. Staff's recommended water system service charges are shown in Schedule TBH GM-26.

1 **Q.** What is Staff's recommendation?

2 A. Staff finds all the Company proposed Service Charges align with customary charges for
3 similarly sized companies. Staff recommends the After Hour Service Charge (at customers
4 request) increases from \$0 to \$25.00.

5
6 **Q.** Does this conclude your testimony?

7 A. Yes, it does.

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | | [A] | [B] |
|----------|---|--|-----------------------|---------------------|
| | | | COMPANY ORIGINAL COST | STAFF ORIGINAL COST |
| 1 | Adjusted Rate Base | | \$564,606 | \$431,139 |
| 2 | Adjusted Operating Income (Loss) | | (\$8,153) | (\$18,914) |
| 3 | Current Rate of Return (L2 / L1) | | -1.44% | -4.39% |
| 4 | Required Rate of Return | | 8.03% | 8.03% |
| 5 | Required Operating Income (L4 * L1) | | \$45,346 | \$34,625 |
| 6 | Operating Income Deficiency (L5 - L2) | | \$53,499 | \$53,539 |
| 7 | Gross Revenue Conversion Factor | | 1.200411 | 1.277557 |
| 8 | Increase (Decrease) In Gross Revenue (L7 * L6) | | \$64,221 | \$68,399 |
| 9 | Adjusted Test Year Revenue | | \$117,447 | \$117,320 |
| 10 | Proposed Annual Revenue (L8 + L9) | | \$181,668 | \$185,719 |
| 11 | Required Increase/(Decrease in Revenue) (%) (L8/L9) | | 54.68% | 58.30% |

References:

Column [A]: Company Schedules A-1 Supplemental Page 1, Company's Schedule Supplemental Attachment No. 2 Page 2

Column [B]: Staff Schedules TBH GM-2, TBH GM-3, & TBH GM-15

GROSS REVENUE CONVERSION FACTOR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|--|--|------------|----------|-----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> | | | | |
| 1 | Revenue | 100.00% | | |
| 2 | Uncollectible Factor (Line 11) | 0.53% | | |
| 3 | Revenues (L1 - L2) | 99.47% | | |
| 4 | Combined Federal and State Income Tax and Property Tax Rate (Line 23) | 21.20% | | |
| 5 | Subtotal (L3 - L4) | 78.27% | | |
| 6 | Revenue Conversion Factor (L1 / L5) | 127.76% | | |
| <u>Calculation of Uncollectible Factor:</u> | | | | |
| 7 | Unity | 100.00% | | |
| 8 | Combined Federal and State Tax Rate (Line 17) | 20.10% | | |
| 9 | One Minus Combined Income Tax Rate (L7 - L8) | 79.90% | | |
| 10 | Uncollectible Rate | 0.66% | | |
| 11 | Uncollectible Factor (L9 * L10) | 0.53% | | |
| <u>Calculation of Effective Tax Rate:</u> | | | | |
| 12 | Operating Income Before Taxes (Arizona Taxable Income) | 100.00% | | |
| 13 | Arizona State Income Tax Rate | 6.00% | | |
| 14 | Federal Taxable Income (L12 - L13) | 94.00% | | |
| 15 | Applicable Federal Income Tax Rate (Line 53) | 15.00% | | |
| 16 | Effective Federal Income Tax Rate (L14 * L15) | 14.10% | | |
| 17 | Combined Federal and State Income Tax Rate (L13 + L16) | | 20.10% | |
| <u>Calculation of Effective Property Tax Factor:</u> | | | | |
| 18 | Unity | 100.00% | | |
| 19 | Combined Federal and State Income Tax Rate (L17) | 20.10% | | |
| 20 | One Minus Combined Income Tax Rate (L18 - L19) | 79.90% | | |
| 21 | Property Tax Factor | 1.38% | | |
| 22 | Effective Property Tax Factor (L20 * L21) | | 1.10% | |
| 23 | Combined Federal and State Income Tax and Property Tax Rate (L17 + L22) | | | 21.20% |
| 24 | Required Operating Income | \$34,625 | | |
| 25 | Adjusted Test Year Operating Income (Loss) | (18,914) | | |
| 26 | Required Increase in Operating Income (L24 - L25) | | \$53,539 | |
| 27 | Income Taxes on Recommended Revenue (Col. [C], L52) | \$7,323 | | |
| 28 | Income Taxes on Test Year Revenue (Col. [A], L52) | (6,145) | | |
| 29 | Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | 13,469 | |
| 30 | Recommended Revenue Requirement | \$185,719 | | |
| 31 | Uncollectible Rate (Line 10) | 0.66% | | |
| 32 | Uncollectible Expense on Recommended Revenue (L30 * L31) | \$1,221 | | |
| 33 | Adjusted Test Year Uncollectible Expense | \$772 | | |
| 34 | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33) | | 449 | |
| 35 | Property Tax with Recommended Revenue | \$5,465 | | |
| 36 | Property Tax on Test Year Revenue | 4,523 | | |
| 37 | Increase in Property Tax Due to Increase in Revenue (L35 - L36) | | 942 | |
| 38 | Total Required Increase in Revenue (L26 + L29 + L34 + L37) | | \$68,398 | |
| <u>Calculation of Income Tax:</u> | | | | |
| 39 | Revenue | \$117,320 | | \$185,719 |
| 40 | Operating Expenses Excluding Income Taxes | 142,380 | | 143,770 |
| 41 | Synchronized Interest (L56) | 5,514 | | 5,514 |
| 42 | Arizona Taxable Income (L39 - L40 - L41) | (\$30,574) | | \$36,434 |
| 43 | Arizona State Income Tax Rate | 6.00% | | 6.00% |
| 44 | Arizona Income Tax (L42 * L43) | (\$1,834) | | \$2,186 |
| 45 | Federal Taxable Income (L42 - L44) | (\$28,739) | | \$34,248 |
| 46 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (4,311) | | 5,137 |
| 47 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | 0 | | 0 |
| 48 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | | 0 |
| 49 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | | 0 |
| 50 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | | 0 |
| 51 | Total Federal Income Tax | (4,311) | | 5,137 |
| 52 | Combined Federal and State Income Tax (L44 + L51) | (\$6,145) | | \$7,323 |
| 53 | Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51) / [Col. [C], L45 - Col. [A], L45] | | | 15.0000% |
| <u>Calculation of Interest Synchronization:</u> | | | | |
| 54 | Rate Base | \$431,139 | | |
| 55 | Weighted Average Cost of Debt | 1.279% | | |
| 56 | Synchronized Interest (L45 * L46) | \$5,514 | | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | ADJ NO. | [C] STAFF AS ADJUSTED |
|-------------|---|-------------------------------|-----------------------------|------------|--------------------------------|
| | | | | | |
| 1 | Plant in Service | \$1,095,441 | (\$122,115) | 1, 2 | \$973,325 |
| 2 | Less: Accumulated Depreciation | 532,491 | 5,552 | 5 | 538,043 |
| 3 | Net Plant in Service | \$562,950 | (\$127,667) | | \$435,282 |
| | <u>LESS:</u> | | | | |
| 4 | Advances in Aid of Construction (AIAC) | \$8,256 | (\$2,235) | 4 | \$6,022 |
| 5 | Service Line and Meter Advances | \$0 | \$0 | | \$0 |
| 6 | Contributions in Aid of Construction (CIAC) | \$0 | \$9,643 | 3 | \$9,643 |
| 7 | Less: Accumulated Amortization | 0 | 976 | 3 | 976 |
| 8 | Net CIAC | \$0 | \$8,668 | | \$8,668 |
| 9 | Total Advances and Contributions | \$8,256 | \$6,433 | | \$14,689 |
| 10 | Customer Deposits | \$750 | \$0 | | \$750 |
| 11 | Accumulated Deferred Income Taxes | \$0 | \$0 | | \$0 |
| | <u>ADD: Working Capital</u> | | | | |
| 12 | Cash Working Capital Allowance | 10,662 | 634 | 6 | 11,296 |
| 13 | Total Rate Base | \$564,606 | (\$133,466) | | \$431,139 |

References:

Column [A], Company Schedule Attachment No. 1 Supplemental, Page 1
Column [B]: Schedule TBH GM-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

| ACCT NO. | PLANT IN SERVICE | Company as Adjusted with Post-Test Plant | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
|---------------------------|---|--|---|---|--|---|---|---|-------------------|
| | | | Adj No. 1 | Adj No. 2 | Adj No. 3 | Adj No. 4 | Adj No. 5 | Adj No. 6 | STAFF AS ADJUSTED |
| | | | Post-Test Year Plant Ref: Sch TBH GM-5 | Reclass Plant to Appropriate Classifications Ref: Sch TBH GM-6 | Unsupported Plant Treated as CIAC Ref: Sch TBH GM-7 | AIAC not paid during Test Year Ref: Sch TBH GM-8 | Accumulated Depreciation Ref: Sch TBH GM-9 | Working Capital Allowance Ref: Sch TBH GM-10 | |
| 301 | Organization Cost | \$110 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$110 |
| 302 | Franchises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 303 | Land and Land Rights | 0 | 14,700 | 0 | 0 | 0 | 0 | 0 | 14,700 |
| 304 | Structures and Improvements | 21,608 | 8,373 | 36,913 | 0 | 0 | 0 | 0 | 66,894 |
| 307 | Wells and Springs ¹ | 113,472 | (44,065) | 539 | 0 | 0 | 0 | 0 | 69,946 |
| 309 | Supply Mains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 310 | Power Generation Equipment | 0 | 0 | 912 | 0 | 0 | 0 | 0 | 912 |
| 311 | Pumping Equipment | 105,182 | 11,270 | (912) | 0 | 0 | 0 | 0 | 115,539 |
| 320 | Water Treatment Equipment | 1,661 | 0 | (1,661) | 0 | 0 | 0 | 0 | 0 |
| 320.1 | Water Treatment Plants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 320.2 | Solution Chemical Feeders | 416 | 5,669 | 1,661 | 0 | 0 | 0 | 0 | 7,745 |
| 330 | Distribution Reservoirs and Standpipes | 7,775 | 0 | (7,775) | 0 | 0 | 0 | 0 | 0 |
| 330.1 | Storage Tanks ² | 250,705 | (144,000) | (36,288) | 0 | 0 | 0 | 0 | 70,417 |
| 330.2 | Pressure Tanks | 55,213 | 0 | 0 | 0 | 0 | 0 | 0 | 55,213 |
| 331 | Transmission and Distribution Mains ³ | 445,165 | 4,869 | 0 | 0 | 0 | 0 | 0 | 450,034 |
| 333 | Services | 55,853 | 81 | 0 | 0 | 0 | 0 | 0 | 55,934 |
| 334 | Meters and Meter Installations | 6,652 | 1,196 | 0 | 0 | 0 | 0 | 0 | 7,848 |
| 335 | Hydrants | 8,774 | 0 | 0 | 0 | 0 | 0 | 0 | 8,774 |
| 336 | Backflow Prevention Devices | 1,027 | 402 | 0 | 0 | 0 | 0 | 0 | 1,428 |
| 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 0 | 0 | 0 | 0 | 0 | 4,850 |
| 340 | Office Furniture and Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 340.1 | Computers and Software | 3,500 | 0 | 0 | 0 | 0 | 0 | 0 | 3,500 |
| 341 | Transportation Equipment | 7,456 | 0 | 19,000 | 0 | 0 | 0 | 0 | 26,456 |
| 343 | Tools, Shop, and Garage Equipment | 149 | 0 | (149) | 0 | 0 | 0 | 0 | 0 |
| 344 | Laboratory Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 345 | Power Operated Equipment | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 |
| 346 | Communication Equipment | 853 | 0 | 7,150 | 0 | 0 | 0 | 0 | 8,003 |
| 347 | Miscellaneous Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 348 | Other Tangible Equipment | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 20 |
| | Rounding | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| | Total Plant in Service | \$1,095,441 | (\$141,506) | \$19,391 | \$0 | \$0 | \$0 | \$0 | \$973,325 |
| | Less: Accumulated Depreciation | 532,491 | 0 | 0 | 0 | 0 | 5,552 | 0 | 538,043 |
| | Net Plant in Service | \$562,950 | (\$141,506) | \$19,391 | \$0 | \$0 | (\$5,552) | \$0 | \$435,282 |
| CCC: | | | | | | | | | |
| | Advances in Aid of Construction (AIAC) | \$8,256 | \$0 | \$0 | \$0 | (\$2,235) | \$0 | \$0 | \$6,022 |
| | Customer Deposits - Service Line & Meter Advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | Contributions in Aid of Construction (CIAC) | \$0 | \$0 | \$0 | \$9,643 | 0 | 0 | 0 | \$9,643 |
| | Less: Accumulated Amortization of CIAC | 0 | 0 | 0 | 976 | 0 | 0 | 0 | 976 |
| | Net CIAC | \$0 | \$0 | \$0 | \$8,668 | \$0 | \$0 | \$0 | \$8,668 |
| | Total Advances and Net Contributions | \$8,256 | \$0 | \$0 | \$8,668 | (\$2,235) | \$0 | \$0 | \$14,689 |
| | Customer Deposits | \$750 | \$0 | \$0 | \$0 | 0 | 0 | 0 | \$750 |
| | Accumulated Deferred Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| D: Working Capital | | | | | | | | | |
| | Payments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | Working Capital Allowance | 10,662 | 0 | 0 | 0 | 0 | 0 | 634 | 11,296 |
| | Total Rate Base | \$564,606 | (\$141,506) | \$19,391 | (\$8,668) | \$2,235 | (\$5,552) | \$634 | \$431,139 |

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR ("PTY") PLANT

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|-----------------------------------|--------------------------|--------------------------|
| | | COMPANY AS FILED WITH PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Acct No. 303 - Land and Land Rights | \$0 | \$14,700 | \$14,700 |
| 2 | Acct No. 304 - Structures & Improvements | 21,608 | 8,373 | 29,981 |
| 3 | Acct No. 307 - Wells and Springs ¹ | 113,472 | (44,065) | 69,407 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | 11,270 | 116,452 |
| 5 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 5,669 | 6,085 |
| 6 | Acct No. 330.1 - Storage Tanks ² | 250,705 | (144,000) | 106,705 |
| 7 | Acct No. 331 - Transmission and Distribution Mains ³ | 445,165 | 4,869 | 450,034 |
| 8 | Acct No. 333 - Services | 55,853 | 81 | 55,934 |
| 9 | Acct No. 334 - Meters and Meter Installations | 6,652 | 1,196 | 7,848 |
| 10 | Acct No. 336 - Backflow Prevention Devices | 1,027 | 402 | 1,428 |
| 11 | TOTAL PLANT RECLASSIFICATIONS | \$1,000,079 | (\$141,506) | \$858,573 |
| 12 | | | | |
| 13 | | | | |
| 14 | PLANT RECLASSIFICATIONS AND DISALLOWANCES | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | DESCRIPTION | COMPANY AS FILED PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 18 | 2013 Plant Addition, Acct No. 303 - Land Survey | \$0 | \$500 | \$500 |
| 19 | 2015 Plant Addition, Acct No. 303 - Land and Land Rights for Easements/Water Rights | 0 | 14,200 | 14,200 |
| 20 | Acct No. 303 - Land and Land Rights | 0 | 14,700 | 14,700 |
| 21 | | | | |
| 22 | 2013 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 5,292 | 5,292 |
| 23 | 2013 Plant Removal (Disallowed), Acct No. 304 - Structures & Improvements | 0 | (3,500) | (3,500) |
| 24 | 2014 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 4,286 | 4,286 |
| 25 | 2015 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 2,296 | 2,296 |
| 26 | Acct No. 304 - Structures & Improvements | 0 | 8,373 | 8,373 |
| 27 | | | | |
| 28 | 2013 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 5,634 | 5,634 |
| 29 | 2014 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 126 | 126 |
| 30 | 2015 Plant Addition, Acct No. 307 - Wells and Springs - Reclassified and Adjusted Land ¹ | 75,000 | (49,825) | 25,175 |
| 31 | Acct No. 307 - Wells and Springs | 75,000 | (44,065) | 30,935 |
| 32 | | | | |
| 33 | 2014 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 11,270 | 11,270 |
| 34 | 2015 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 403 | 403 |
| 35 | Acct No. 311 - Pumping Equipment | 0 | 11,270 | 11,270 |
| 36 | | | | |
| 37 | 2014 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders ⁴ | 0 | 4,574 | 4,574 |
| 38 | 2015 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,095 | 1,095 |
| 39 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 5,669 | 5,669 |
| 40 | | | | |
| 41 | 2013 PTY Removal - Staff's Adjustment (\$144,000 included by Company) Not used and useful. | 144,000 | (144,000) | 0 |
| 42 | Acct No. 330.1 - Storage Tanks | 144,000 | (144,000) | 0 |
| 43 | | | | |
| 44 | 2013 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 30,000 | (24,700) | 5,300 |
| 45 | 2014 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 0 | 29,569 | 29,569 |
| 46 | Acct No. 331 - Transmission and Distribution Mains | 30,000 | 4,869 | 34,869 |
| 47 | | | | |
| 48 | 2014 Plant Addition, Acct No. 333 - Services | 0 | 81 | 81 |
| 49 | Acct No. 333 - Services | 0 | 81 | 81 |
| 50 | | | | |
| 51 | 2014 Plant Additions, Acct No. 334 - Meters and Meter Installations | 0 | 1,196 | 1,196 |
| 52 | Acct No. 334 - Meters and Meter Installations | 0 | 1,196 | 1,196 |
| 53 | | | | |
| 54 | 2014 Plant Addition, Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 55 | Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 56 | | | | |
| 57 | Total | \$249,000 | (\$141,506) | \$107,494 |

¹ Company included \$75,000 for PTY Plant. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for Well.

² Company proposed PTY Plant for Acct. No. 330.1 - Storage Tanks \$144,000 For Storage Tank 3.

³ Company proposed PTY Plant for Acct. No. 331 - Transmission & Distribution Mains \$30,000 from Well No. 6 to Transmission Lines.

⁴ Vendor provided Staff an Invoice (RW Turner Sons Invoice 13535) totaling \$10,085.76 yet billed the Company \$9,567.62 due to a Change Order for the Pellet Coordinator (Credit of \$518.14).

References:

Column [A]: Company Schedules B-2 and Attachment No. 1, Supplemental Page 2

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.50

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2- RECLASSIFY PLANT TO APPROPRIATE CLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------------|----------------------|--------------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Acct No. 304 - Structures & Improvements | \$21,608 | \$36,913 | \$58,520 |
| 2 | Acct No. 307 - Wells & Springs | 113,472 | 539 | 114,011 |
| 3 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | (912) | 104,270 |
| 5 | Acct No. 320 - Water Treatment Equipment | 1,661 | (1,661) | 0 |
| 6 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 1,661 | 2,077 |
| 7 | Acct No. 330 - Distr Reserv & Standpipes | 7,775 | (7,775) | 0 |
| 8 | Acct No. 330.1 - Storage Tanks | 250,705 | (36,288) | 214,417 |
| 9 | Acct No. 341 - Transportation Equipment | 7,456 | 19,000 | 26,456 |
| 10 | Acct No. 343 - Tools, Shop & Garage Equip | 149 | (149) | 0 |
| 11 | Acct No. 346 - Communication Equipment | 853 | 7,150 | 8,003 |
| 12 | Rounding | 0 | 1 | 1 |
| 13 | TOTAL PLANT RECLASSIFICATIONS | \$509,276 | \$19,391 | \$528,667 |
| 14 | | | | |
| 15 | | | | |
| 16 | PLANT RECLASSIFICATIONS | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | DESCRIPTION | PLANT ADDITIONS | PLANT RECLASS | STAFF AS ADJUSTED |
| 20 | 2009 Plant Reclass, Acct No. 304 - Structures & Improvements | \$0 | \$36,913 | \$36,913 |
| 21 | Acct No. 304 - Structures & Improvements | 0 | 36,913 | 36,913 |
| 22 | | | | |
| 23 | 2013 Plant Reclass, Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 24 | Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 25 | | | | |
| 26 | 2011 Plant Reclass, Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 27 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 28 | | | | |
| 29 | 2011 Plant Reclass, Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 30 | Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 31 | | | | |
| 32 | 2009 Plant Reclass, Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 33 | Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 34 | | | | |
| 35 | 2009 Plant Reclass, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 36 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 37 | | | | |
| 38 | 2009 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,325) | (7,325) |
| 39 | 2010 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (450) | (450) |
| 40 | Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,775) | (7,775) |
| 41 | | | | |
| 42 | 2009 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (29,588) | (29,588) |
| 43 | 2010 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (6,700) | (6,700) |
| 44 | Acct No. 330.1 - Storage Tanks | 0 | (36,288) | (36,288) |
| 45 | | | | |
| 46 | 2013 Plant Addition, Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 47 | Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 48 | | | | |
| 49 | 2013 Plant Reclass, Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 50 | Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 51 | | | | |
| 52 | 2010 Plant Reclass, Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 53 | Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 54 | | | | |
| 55 | 2013 Rounding | 0 | 1 | 1 |
| 56 | Rounding | 0 | 1 | 1 |
| 57 | | | | |
| 58 | Total | \$19,000 | \$391 | \$19,391 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6
Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.3
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - UNSUPPORTED PLANT TREATED AS CIAC

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|-------------------------|--------------------------|--------------------------|
| 1 | CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,643 | \$9,643 |
| 2 | Amort of CIAC, Unsupported Plant Treated as CIAC | 0 | 976 | 976 |
| 3 | Net CIAC, Unsupported Plant Treated as CIAC | \$0 | \$8,668 | \$8,668 |

| UNSUPPORTED PLANT TREATED AS CIAC | | | |
|---|--------------------------|-------------------------|-------------------|
| DESCRIPTION | Plant Selected In Sample | Unsupported Plant Costs | Staff as Adjusted |
| 2009 Plant Addition, Acct No. 304 - Structures & Improvements | \$0 | \$33,057 | \$33,057 |
| Acct No. 304 - Structures & Improvements Subtotal | 0 | 33,057 | 33,057 |
| 2009 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 38,822 | 38,822 |
| 2010 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 14,477 | 14,477 |
| Acct No. 330.1 - Storage Tanks Subtotal | 0 | 53,299 | 53,299 |
| 2009 Plant Addition, Acct No. 331 - Transmission & Distribution Mains | 0 | 2,961 | 2,961 |
| Acct No. 331 - Transmission & Distribution Mains Subtotal | 0 | 2,961 | 2,961 |
| 2010 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 416 | 416 |
| Acct No. 320.2 - Solution Chemical Feeders Subtotal | 0 | 416 | 416 |
| 2010 Plant Addition, Acct No. 346 - Communication Equipment | 0 | 6,700 | 6,700 |
| Acct No. 346 - Communication Equipment Subtotal | 0 | 6,700 | 6,700 |
| TOTAL UNSUPPORTED PLANT | \$0 | \$96,432 | \$96,432 |
| Total | | | \$96,432 |
| | | | x 10% |
| | | | \$9,643 |

| CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT | | | | | | |
|--|---------------------------|-------------------|--------------------------|-------------------------|-------------------|----------------------|
| Year Added | Plant Additions | Unsupported Plant | Year Transferred To CIAC | Number of Interim Years | Depreciation Rate | Amortization of CIAC |
| 2009 | Structures & Improvements | \$33,057 | 2013 | 3.5 | 3.33% | \$3,853 |
| 2009 | Storage Tanks | 38,822 | 2013 | 3.5 | 2.22% | 3,016 |
| 2009 | Trans. & Distr. Mains | 2,961 | 2013 | 3.5 | 2.00% | 207 |
| 2010 | Solution Chemical Feeders | 416 | 2013 | 2.5 | 20.00% | 208 |
| 2010 | Storage Tanks | 14,477 | 2013 | 2.5 | 2.20% | 796 |
| 2010 | Communication Equip. | 6,700 | 2013 | 2.5 | 10.00% | 1,675 |
| Total | | \$96,432 | | | | \$9,756 |
| | | | | | | x 10% |
| | | | | | | \$976 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6

Column [B]: Testimony, TBH

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction | \$8,256 | \$0 | \$8,256 |
| 2 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers | 0 | (2,235) | (2,235) |
| 3 | Total AIAC paid in 2014 for 2013 refunds due customers | \$8,256 | (\$2,235) | \$6,022 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental Page 2

Column [B]: Testimony, TBH, Company's response to DR's GM TBH 1.19 and GM TBH 2.6.

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--------------------------|-------------------------|--------------------------|--------------------------|
| 1 | Accumulated Depreciation | \$532,491 | \$5,552 | \$ 538,043 |

References:

- Column [A]: Company's Application - Attachment No. 1 Supplemental 5.1 - 5.6
- Column [B]: Testimony, TBH, Company Data Request Responses
- Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL ALLOWANCE

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--------------------------------------|----------------------------|-----------------------------|-----------------------------|
| 1 | Cash Working Capital Allowance | \$10,662 | \$634 | \$11,296 |
| 2 | | | | |
| 3 | Operation & Maintenance* | | | \$87,264 |
| 4 | Multiplied by | | X | 1/8 |
| 5 | | | | \$10,908 |
| 6 | | | | |
| 7 | Purchased Power & Purchased Water | | | \$9,306 |
| 8 | Multiplied by | | X | 1/24 |
| 9 | | | | \$388 |
| 10 | | | | |
| 11 | Total Cash Working Capital Allowance | | | \$11,296 |
| 12 | | | | |
| 13 | | | | |

* Less depreciation, taxes, purchased power and purchased water

References:

Column [A]: Company's Application Attachment No. 1 Supplemental Page 1
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

OPERATING INCOME - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

| LINE NO. | DESCRIPTION | [A] COMPANY TEST YEAR AS FILED | [B] STAFF TEST YEAR ADJUSTMENTS | [C] ADJ TEST YEAR AS ADJUSTED | [D] STAFF PROPOSED CHANGES | [E] STAFF RECOMMENDED |
|----------|---------------------------------|---|--|---|-------------------------------------|-----------------------------|
| | REVENUES: | | | | | |
| 1 | Metered Water Sales | \$114,273 | \$0 | \$114,273 | \$68,399 | \$182,672 |
| 2 | Water Sales - Unmetered | 0 | 0 | 0 | 0 | 0 |
| 3 | Other Operating Revenues | 3,174 | (127) | \$3,047 | 0 | 3,047 |
| 4 | Total Revenues | \$117,447 | (\$127) | \$117,320 | \$68,399 | \$185,719 |
| | EXPENSES: | | | | | |
| 7 | Salaries and Wages | \$38,942 | \$4,319 | \$43,261 | \$0 | \$43,261 |
| 8 | Salaries and Wages - Officers | 6,000 | (273) | 5,727 | 0 | 5,727 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 356 | 9,306 | 0 | 9,306 |
| 11 | Fuel for Power Production | 0 | 0 | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 80 | 127 | 0 | 127 |
| 13 | Repairs and Maintenance | 4,339 | (1,798) | 2,541 | 0 | 2,541 |
| 14 | Office Supplies & Expense | 8,314 | (2,701) | 5,613 | 0 | 5,613 |
| 15 | Contractual Services | 11,353 | (6,209) | 5,144 | 0 | 5,144 |
| 16 | Water Testing | 5,380 | (3,530) | 1,850 | 0 | 1,850 |
| 17 | Rents | 0 | 3,030 | 3,030 | 0 | 3,030 |
| 18 | Transportation Expenses | 5,453 | 401 | 5,854 | 0 | 5,854 |
| 19 | Insurance - General Liability | 1,292 | 882 | 2,174 | 0 | 2,174 |
| 20 | Insurance - Health and Life | 0 | 718 | 718 | 0 | 718 |
| 21 | Reg. Comm. Exp. | 321 | 0 | 321 | 0 | 321 |
| 22 | Reg. Comm. Exp. - Rate Case | 3,333 | 6,667 | 10,000 | 0 | 10,000 |
| 23 | Miscellaneous Expense | 102 | 30 | 132 | 0 | 132 |
| 24 | Bad Debt Expense | 772 | 0 | 772 | 449 | 1,221 |
| 25 | Depreciation Expense | 27,096 | 10,372 | 37,468 | 0 | 37,468 |
| 26 | Taxes Other Than Income | 0 | 0 | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | (529) | 4,523 | 942 | 5,465 |
| 28 | Payroll Taxes | 0 | 3,819 | 3,819 | 0 | 3,819 |
| 29 | Income Taxes | (1,147) | (4,998) | (6,145) | 13,469 | 7,323 |
| 30 | Rounding | 1 | 0 | 1 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | \$10,634 | \$136,234 | \$14,859 | \$151,094 |
| 32 | | | | | | |
| 33 | Operating Income (Loss) | (\$8,153) | (\$10,761) | (\$18,914) | \$53,540 | \$34,625 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH GM-16
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH GM-1 and TBH GM-2
Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] ADJ NO. 1 Unallocated Revenue Ref: Sch TBH GM-13 | [C] ADJ NO. 2 Repairs and Maintenance Ref: Sch TBH GM-14 | [D] ADJ NO. 3 Office Supplies Ref: Sch TBH GM-15 | [E] ADJ NO. 4 Contractual Services Ref: Sch TBH GM-16 | [F] ADJ NO. 5 Water Testing Ref: Sch TBH GM-17 | [G] ADJ NO. 6 Transportation Ref: Sch TBH GM-18 | [H] ADJ NO. 7 Rate Case Expense Ref: Sch TBH GM-19 | [I] ADJ NO. 8 Allocations to Water Companies Ref: Sch TBH GM-20 | [J] ADJ NO. 9 Depreciation Expense Ref: Sch TBH GM-21 | [K] ADJ NO. 10 Property Taxes Ref: Sch TBH GM-22 | [L] ADJ NO. 11 Taxes Income Tax Expense Ref: Sch TBH GM-23 | [M] STAFF ADJUSTED |
|----------|-------------------------------|----------------------|--|--|--|---|--|---|--|---|---|--|--|--------------------|
| 1 | REVENUES | | | | | | | | | | | | | |
| 2 | Metered Water Sales | \$114,273 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$114,273 |
| 3 | Water Sales - Unmetered | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Other Operating Revenues | 3,174 | (127) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,047 |
| 5 | Total Revenues | \$117,447 | (\$127) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$117,320 |
| 6 | OPERATING EXPENSES | | | | | | | | | | | | | |
| 7 | Salaries and Wages | \$38,942 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$4,319 | \$0 | \$0 | \$0 | \$43,261 |
| 8 | Salaries and Wages - Officers | 6,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (273) | 0 | 0 | 0 | 5,727 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 356 | 0 | 0 | 0 | 9,306 |
| 11 | Fuel for Power Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 80 | 0 | 0 | 0 | 127 |
| 13 | Repairs and Maintenance | 4,339 | 0 | (1,792) | 0 | 0 | 0 | 0 | 0 | (7) | 0 | 0 | 0 | 2,541 |
| 14 | Office Supplies & Expense | 8,314 | 0 | 0 | (1,727) | 0 | 0 | 0 | 0 | (974) | 0 | 0 | 0 | 5,613 |
| 15 | Contractual Services | 11,353 | 0 | 0 | 0 | (7,531) | 0 | 0 | 0 | 1,322 | 0 | 0 | 0 | 5,144 |
| 16 | Water Testing | 5,380 | 0 | 0 | 0 | 0 | (3,530) | 0 | 0 | 0 | 0 | 0 | 0 | 1,850 |
| 17 | Rents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,030 |
| 18 | Transportation Expenses | 5,453 | 0 | 0 | 0 | 0 | 0 | (900) | 0 | 0 | 0 | 0 | 0 | 5,854 |
| 19 | Insurance - General Liability | 1,292 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,301 | 0 | 0 | 0 | 2,174 |
| 20 | Insurance - Health and Life | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 882 | 0 | 0 | 0 | 718 |
| 21 | Reg Comm Exp. | 321 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 321 |
| 22 | Reg Comm Exp. - Rate Case | 3,333 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10,000 |
| 23 | Miscellaneous Expenses | 102 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 772 |
| 24 | Bad Debt Expense | 772 | 0 | 0 | 0 | 0 | 0 | 0 | 6,667 | 0 | 0 | 0 | 0 | 37,468 |
| 25 | Depreciation Expense | 27,096 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30 | 10,372 | 0 | 0 | 0 |
| 26 | Taxes Other Than Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,523 |
| 28 | Payroll Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,819 |
| 29 | Income Taxes | (1,147) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,819 | 0 | 0 | 0 | (6,145) |
| 30 | Rounding | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | \$0 | (\$1,792) | (\$1,727) | (\$7,531) | (\$3,530) | (\$900) | \$6,667 | \$14,603 | \$10,372 | (\$529) | (4,998) | \$136,234 |
| 32 | Operating Income (Loss) | (\$8,153) | (\$127) | \$1,792 | \$1,727 | \$7,531 | \$3,530 | \$900 | (\$6,667) | (\$14,603) | (\$10,372) | \$529 | \$4,998 | (\$18,914) |

OPERATING INCOME ADJUSTMENT NO. 1 - UNAUTHORIZED SURCHARGE - OTHER REVENUE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---------------------------|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Other Revenue - Surcharge | \$3,174 | (\$127) | \$3,047 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - REPAIRS AND MAINTENANCE

| DESCRIPTION | [A] | [B] | [C] |
|--|---------------------|----------------------|----------------------|
| | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| Repairs and Maintenance | \$4,339 | (\$1,792) | \$2,547 |
| Repairs & Maintenance | | | |
| <u>To reclass cost of culvert from expenses to PTY Plant</u> | | | |
| Payment for materials for culvert at Short Spur for new well | | \$3,292 | |
| Monies for half of the culvert for new well at Short Spur | | (1,500) | |
| Total reclass to CWIP | | | (\$1,792) |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 3 - OFFICE SUPPLIES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Office Supplies | \$8,314 | (\$1,727) | \$6,587 |
| 2 | | | | |
| 3 | Office Supplies | | | |
| 4 | Disallowed Expenses for Mr. Levie's Office Phone for Prop. Mgmt. | | (\$1,727) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

| OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES | | | | |
|--|---|------------------|-------------------|-------------------|
| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Contractual Services | \$11,353 | (\$7,531) | \$3,822 |
| 2 | | | | |
| 3 | | | | |
| 4 | Contractual Services | | | |
| 5 | Engineering Expenses - Reclass to CWIP | (\$3,500) | | |
| 6 | New well testing on Short Spur - Reclass to CWIP | (3,045) | | |
| 7 | Contact Labor for rate case preparation - Reclass to Rate Case Expenses | (345) | | |
| 8 | Ariccor Watrr Solutions - Reclass to Rate Case Expenses | (641) | | |
| 9 | Total Contractual Services Reclassification | | (\$7,531) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 5 - WATER TESTING

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Water Testing | \$5,380 | (\$3,530) | \$1,850 |
| 2 | | | | |
| 3 | Reclassification of Water Testing Expenses | | | |
| 4 | Well No. 6 ADEQ Expenses - Reclass to CWIP | | (\$2,500) | |
| 5 | Storage Tank #3 ADEQ Expenses - Reclass to CWIP | | (1,800) | |
| 6 | Total Water Testing Reclassification | | | (\$4,300) |
| 7 | | | | |
| 8 | Water Testing Costs Per Table 4 - Engineering Report | | | |
| 9 | Actual Water Testing Costs | | \$1,850 | |
| 10 | Total Normalized Water Testing Costs | | | \$1,850 |
| 11 | | | | |
| 12 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, TBH, Engineering Report in Exhibit 1
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - TRANSPORTATION

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Transportation Expenses | \$5,453 | (\$900) | \$4,553 |
| 2 | | | | |
| 3 | Transportation | | | |
| 4 | Disallowed Expenses for Gas Reimbursements | (\$900) | (\$900) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS (Col C - Col A) | [C] STAFF AS ADJUSTED |
|----------|-------------------|-------------------------------|--|-----------------------------|
| | | | | |
| 1 | Rate Case Expense | \$3,333 | \$6,667 | \$10,000 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | Company | Rate Case Expense as filed | Staff Adjusted Rate Case Expense | Normalize over 3 years |
| 8 | Chino Meadows | \$40,000 | \$45,000 | \$5,000 |
| 9 | Granite Mountain | 10,000 | 30,000 | 20,000 |
| 10 | Total | \$50,000 | \$75,000 | \$25,000 |
| | | | \$25,000 | \$8,333 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, Company's Responses to DR GM TBH 1.7 Supplemental & TBH DR GM TBH 1.7

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS AS ADJUSTED | [C] STAFF AS ADJUSTED | [D] Chino Meadows as filed | [E] Original amount allocated to Granite Mountain | [F] Reclassification | [G] Staff Adjustments Disallowance | [H] Normalize | [I] Chino Meadows Direct | [J] Cost to be Allocated | [K] Portion allocated to unregulated Companies | [L] Amount allocated to unregulated Companies | [M] Amount allocated to regulated Companies | [N] Granite Mountain 4-factor allocation | [O] Amount to be allocated to Granite Mountain | [P] Granite Mountain Direct |
|----------|-------------------------------|----------------------------|--|-----------------------------|-------------------------------------|--|-------------------------|--|------------------|-----------------------------------|--------------------------------|---|--|--|---|---|--------------------------------------|
| 1 | Salaries and Wages | \$38,942 | \$4,319 | \$43,261 | \$179,965 | \$0 | (\$15,718) | (\$17,444) | \$13,834 | \$0 | \$160,638 | 0% | \$0 | \$160,638 | 26.93% | \$43,261 | \$0 |
| 2 | Salaries and Wages - Officers | 6,000 | (273) | 5,727 | 31,700 | 6,000 | 0 | (16,434) | 0 | 0 | 21,266 | 0% | 0 | 21,266 | 26.93% | \$5,727 | 0 |
| 3 | Purchased Power | 8,950 | 356 | 9,306 | 24,401 | 247 | 0 | (46) | 0 | 22,110 | 2,493 | 10% | 249 | 2,244 | 26.93% | \$604 | 8,702 |
| 4 | Chemicals | 47 | 80 | 127 | 425 | 47 | 0 | 0 | 0 | 0 | 472 | 0% | 0 | 472 | 26.93% | 127 | 0 |
| 5 | Repairs and Maintenance | 4,339 | (7) | 4,332 | 8,899 | 633 | 1,281 | (124) | 0 | 2,159 | 8,530 | 0% | 0 | 8,530 | 26.93% | 2,297 | 2,035 |
| 6 | Office Supplies & Expense | 8,314 | (774) | 7,540 | 30,594 | 1,988 | (12,000) | (2,804) | (208) | 0 | 17,569 | 10% | 1,757 | 15,812 | 26.93% | 4,258 | 3,081 |
| 7 | Rents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,000 | 25% | 3,750 | 11,250 | 26.93% | 3,030 | 0 |
| 8 | Contractual Services | 11,353 | 1,322 | 12,675 | 11,457 | 490 | (500) | (1,232) | 0 | 3,489 | 6,726 | 0% | 0 | 6,726 | 26.93% | 1,811 | 10,863 |
| 9 | Transportation Expenses | 5,453 | 1,301 | 6,754 | 24,752 | 2,736 | 1,817 | (7,380) | (186) | 0 | 21,739 | 0% | 0 | 21,739 | 26.93% | 5,854 | 900 |
| 10 | Insurance - General Liability | 1,292 | 882 | 2,174 | 8,964 | 996 | 0 | (1,056) | 594 | 0 | 9,496 | 15% | 1,424 | 8,072 | 26.93% | 2,174 | 0 |
| 11 | Insurance - Health and Life | 0 | 718 | 718 | 2,667 | 296 | 0 | 0 | 0 | 0 | 2,963 | 10% | 296 | 2,667 | 26.93% | 718 | 0 |
| 12 | Miscellaneous Expenses | 102 | 30 | 132 | 8,848 | 245 | (3,397) | (2,301) | 0 | 2,903 | 490 | 0% | 0 | 490 | 26.93% | 132 | 0 |
| 13 | Payroll Taxes | 0 | 3,819 | 3,819 | 0 | 0 | 15,718 | (1,539) | 0 | 0 | 14,179 | 0% | 0 | 14,179 | 26.93% | 3,819 | 0 |
| 14 | Total | \$84,792 | \$14,603 | \$99,395 | \$332,672 | \$16,678 | (\$799) | (\$30,362) | \$14,034 | \$30,661 | \$281,562 | | \$7,477 | \$274,085 | | \$73,813 | \$25,582 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Column [C] - Column [A]

Column [C]: Col [P] + Col [Q]

Column [D]: Chino Meadows Schedule TBH CM-14

Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3

Column [F]: Schedule TBH CM-19c

Column [G]: Schedule TBH CM-19c

Column [H]: Schedule TBH CM-19d

Column [I]: Chino Meadows Schedule TBH CM-20a, Co. [I]

Column [J]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H] - Col [I]

Column [K]: Testimony, TBH

Column [L]: Col [J] * Col [K]

Column [M]: Col [J] - Col [L]

Column [N]: Schedule TBH GM-20e

Column [P]: Col [M] * Col [N]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS RECLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$15,718) | \$164,247 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 1,281 | 10,180 |
| 6 | Office Supplies & Expense | 30,594 | (12,000) | 18,594 |
| 7 | Rents | 0 | 12,000 | 12,000 |
| 8 | Contractual Services | 11,457 | (500) | 10,957 |
| 9 | Transportation Expenses | 24,752 | 1,817 | 26,569 |
| 10 | Insurance - General Liability | 8,964 | 0 | 8,964 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (3,397) | 5,451 |
| 13 | Payroll Taxes | 0 | 15,718 | 15,718 |
| 14 | | | | |
| 15 | Salaries and Wages | | | |
| 16 | Payroll taxes included as salaries and wages | (\$15,718) | (\$15,718) | |
| 17 | | | | |
| 18 | Repairs and Maintenance | | | |
| 19 | To reclass expense to plant | (\$539) | | |
| 20 | Amount originally booked to Granite Mountain to be included in the cost pool | 1,820 | \$1,281 | |
| 21 | | | | |
| 22 | Office Supplies & Expense | | | |
| 23 | Rent - Misclassified as Office Supplies | (\$12,000) | (\$12,000) | |
| 24 | | | | |
| 25 | Rents | | | |
| 26 | Rent - Misclassified as Office Supplies | \$12,000 | \$12,000 | |
| 27 | | | | |
| 28 | Contractual Services | | | |
| 29 | Survey for Granite Mountain Well No. 6 Site | (\$500) | (\$500) | |
| 30 | | | | |
| 31 | Transportation Expenses | | | |
| 32 | Amount originally booked to Granite Mountain to be included in the cost pool | \$1,817 | \$1,817 | |
| 33 | | | | |
| 34 | Miscellaneous Expenses | | | |
| 35 | To correct for bad debt expenses included in miscellaneous expenses | (\$3,000) | | |
| 36 | Adjustment - Less Security Deposits Corrections | (554) | | |
| 37 | To adjust for bad debts recovered and collection fees included in miscellaneous expenses | 157 | (\$3,397) | |
| 38 | | | | |
| 39 | Payroll Taxes | | | |
| 40 | Payroll taxes included as salaries and wages | \$15,718 | \$15,718 | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS DISALLOWED

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$17,444) | \$162,521 |
| 2 | Salaries and Wages - Officers | 31,700 | (16,434) | 15,266 |
| 3 | Purchased Power | 24,401 | (46) | 24,355 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | (124) | 8,775 |
| 6 | Office Supplies & Expense | 30,594 | (2,804) | 27,790 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | (1,232) | 10,225 |
| 9 | Transportation Expenses | 24,752 | (7,380) | 17,372 |
| 10 | Insurance - General Liability | 8,964 | (1,058) | 7,906 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (2,301) | 6,547 |
| 13 | Payroll Taxes | 0 | (1,539) | (1,539) |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Non-regulated salaries and wages | (\$17,444) | (\$17,444) | |
| 18 | | | | |
| 19 | Salaries and Wages - Officers | | | |
| 20 | Pay adjusted to reflect actual time worked | (\$11,761) | | |
| 21 | Duties assigned to office manager | (4,673) | (16,434) | |
| 22 | | | | |
| 23 | Purchased Power | | | |
| 24 | To adjust for late fees | (\$46) | (\$46) | |
| 25 | | | | |
| 26 | Repairs and Maintenance | | | |
| 27 | To adjust for personal expense | (\$124) | (\$124) | |
| 28 | | | | |
| 29 | Office Supplies & Expense | | | |
| 30 | Interest and Late Fees | (\$44) | | |
| 31 | Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan | (1,888) | | |
| 32 | Meals | (218) | | |
| 33 | Miscellaneous Personal Expenses | (524) | | |
| 34 | 2010 Expense | (130) | (\$2,804) | |
| 35 | | | | |
| 36 | Contractual Services | | | |
| 37 | Legal Fees for Fire | (\$1,232) | (\$1,232) | |
| 38 | | | | |
| 39 | Transportation Expenses | | | |
| 40 | Gas Reimbursement \$100 per month - Company no longer providing | (\$800) | | |
| 41 | Personal Use Purchases - Tires | (2,497) | | |
| 42 | Out of State Gasoline Purchase | (2,229) | | |
| 43 | Bulk Delivery of Gasoline to Paul's Home (530 gallons) | (1,854) | (\$7,380) | |
| 44 | | | | |
| 45 | Insurance - General Liability | | | |
| 46 | Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co. | (\$1,058) | (\$1,058) | |
| 47 | | | | |
| 48 | Miscellaneous Expenses | | | |
| 49 | Gifts | (\$1,559) | | |
| 50 | Meals | (683) | | |
| 51 | Donations | (60) | (\$2,301) | |
| 52 | | | | |
| 53 | Payroll Taxes | | | |
| 54 | Non-regulated payroll taxes | (\$1,539) | (\$1,539) | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS NORMALIZATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | \$13,834 | \$193,799 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 0 | 8,899 |
| 6 | Office Supplies & Expense | 30,594 | (208) | 30,386 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | 0 | 11,457 |
| 9 | Transportation Expenses | 24,752 | (186) | 24,566 |
| 10 | Insurance - General Liability | 8,964 | 594 | 9,558 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | 0 | 8,848 |
| 13 | Payroll Taxes | 0 | 0 | 0 |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Normalize salaries and benefits | \$13,834 | \$13,834 | |
| 18 | | | | |
| 19 | Office Supplies & Expense | | | |
| 20 | Normalize Carbonite over 3 years | (\$94) | | |
| 21 | Normalize GoDaddy 5 year contract | (114) | (\$208) | |
| 22 | | | | |
| 23 | Transportation Expenses | | | |
| 24 | Normalize Vehicle Registration for 2 years | (\$186) | (\$186) | |
| 25 | | | | |
| 26 | Insurance - General Liability | | | |
| 27 | Normalize Insurance Policy adjustment for refunds | \$594 | \$594 | |

OPERATING INCOME ADJUSTMENT NO. 8 - 4-FACTOR ALLOCATION CALCULATION

| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] |
|----------|------------------|----------------|------------------|----------------------|------------------------|----------------------|----------------------|-----------------------------|------------------|------------|
| Line No. | Company | Customer count | Customer count % | Net Plant in service | Net Plant in service % | Total Annual Revenue | Operating expenses % | Total Annual Gallons Pumped | Gallons Pumped % | 4-factor % |
| 1 | Antelope Lakes | 2 | 0.20% | \$62,347 | 11.34% | \$613 | 0.13% | 95 | 0.13% | 2.95% |
| 2 | Chino Meadows | 899 | 87.96% | 173,351 | 31.54% | 357,364 | 75.17% | 64,140 | 85.81% | 70.12% |
| 3 | Granite Mountain | 121 | 11.84% | 313,950 | 57.12% | 117,447 | 24.70% | 10,510 | 14.06% | 26.93% |
| 4 | Total | 1,022 | | \$549,648 | | \$475,424 | | 74,745 | | 100.00% |

References:

Column [A]: The Customer counts for Chino Meadows and Granite Mountain are from the applications; and for Antelope Lakes, the 2013 Annual Report, p. 12 as of 12/31/2013

Column [B]: Column [A] / Line 4.

Column [C]: The Net Plant in service information for Chino Meadows and Granite Mountain are from the applications & Schedule TBH-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of 12/31/2013

Column [D]: Column [C] / Line 4.

Column [E]: The Total Annual Revenue information for Chino Meadows and Granite Mountain are from the applications; the information for Antelope Lakes, is from the 2013 Annual Report, p. 8 as of 12/31/2013

Column [F]: Column [E] / Line 4.

Column [G]: The Total Annual Gallons Pumped information for Chino Meadows and Granite Mountain is from the application; the information for Antelope Lakes, is from the 2013 Annual Report on Revised Balance Sheet, p. 12 as of 12/31/2013

Column [H]: Column [G] / Line 4.

Column [I]: Average of Columns [B, D, F, and H].

OPERATING INCOME ADJUSTMENT NO. 8: ALLOCATIONS SALARIES & WAGES CALCULATION

| LINE NO. | [A] 2014 Current Salaries | [B] 2014 Current or Estimated Hourly Rate | [C] 2014 Current or Estimated Salary and Wages | [D] 2014 Current or Estimated Payroll Taxes | [E] Non-Regulated Hours | [F] 2014 Non-Regulated Salary and Wages | [G] 2014 Non-Regulated Payroll Taxes | [H] Staff Adjusted Salaries and Wages | [I] Staff Adjusted Payroll Taxes |
|----------|------------------------------|--|---|--|----------------------------|--|---|--|-------------------------------------|
| 1 | Barney ² | \$26.61 | \$55,356 | \$4,670 | 10% | \$5,536 | \$467 | \$49,821 | \$4,203 |
| 2 | Nelson | 14.50 | 30,160 | 2,714 | 5% | 1,508 | 136 | 28,652 | 2,579 |
| 3 | Lopez | 17.50 | 36,400 | 3,276 | | | | 36,400 | 3,276 |
| 4 | Feichter | 14.50 | 30,160 | 2,714 | | | | 30,160 | 2,714 |
| 5 | Magnussen | 12.50 | 26,000 | 2,340 | 40% | 10,400 | 936 | 15,600 | 1,404 |
| 6 | Rounding | 0.00 | 5 | 3 | | | | 5 | 3 |
| 7 | Total | | \$178,082 | \$15,718 | | \$17,444 | \$1,539 | \$160,638 | \$14,179 |

¹ Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-2.12h, CM TBH-2.5 and GM TBH-2.5g.
² Per TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.

References:

Column [A]: Company Schedule C-2
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

| LINE NO. | DESCRIPTION | [A] | |
|----------|--|----------------|------------------------|
| | | Officer Salary | Hours worked per month |
| 1 | Supervision and management of company personnel | | 12 |
| 2 | Oversight of company operations | | 6 |
| 3 | Provide strategic direction | | 6 |
| 4 | Review company financial data including payables, receivable, revenue and expenses | | 12 |
| 5 | Provide legal representation for Company | | 8 |
| 6 | Review payroll and sign checks | | 4 |
| 7 | Review and authorize all vendor payments | | 4 |
| 8 | Acquire regulate and oversee company loans and long-term debts | | 8 |
| 9 | Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available | | 20 |
| 10 | Develop and review company processes and procedures to ensure regulatory compliance | | 8 |
| 11 | Review & advise Company on manuals such as employee handbook & emergency response manual | | 1 |
| 12 | Total Monthly Hours | | 89 |
| 13 | Less hours out of town (33 percent of the total monthly hours) | | 29.37 |
| 14 | Adjusted Hours | | 59.63 |
| 15 | Adjusted Hours * \$36.25 ¹ * 12 months | \$25,939 | |
| 16 | Less Additional Increase for Operations Manager from 2013 to 2014 ² | (4,673) | |
| 17 | Adjusted Officers Salary | \$21,266 | |

¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain = \$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25

² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673.

References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

| LINE NO. | ACCT NO. | DESCRIPTION | [A] PLANT In SERVICE Per Staff | [B] NonDepreciable or Fully Depreciated PLANT | [C] DEPRECIABLE PLANT (Col A - Col B) | [D] DEPRECIATION RATE | [E] DEPRECIATION EXPENSE (Col C x Col D) |
|----------|----------|---|---|--|--|-----------------------------|---|
| 1 | 301 | Organization Cost | \$110 | \$110 | \$0 | 0.00% | \$0 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0.00% | 0 |
| 3 | 303 | Land and Land Rights | 14,700 | 14,700 | 0 | 0.00% | 0 |
| 4 | 304 | Structures and Improvements | 66,894 | 0 | 66,894 | 3.33% | 2,228 |
| 5 | 307 | Wells and Springs | 69,946 | 0 | 69,946 | 3.33% | 2,329 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 2.00% | 0 |
| 7 | 310 | Power Generation Equipment | 912 | 0 | 912 | 5.00% | 18 |
| 8 | 311 | Pumping Equipment | 115,539 | 105,182 | 10,357 | 12.50% | 518 |
| 9 | 320 | Water Treatment Equipment | | | | | |
| 10 | 320.1 | Water Treatment Plants | 0 | | 0 | 3.33% | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 7,745 | 2,077 | 5,668 | 20.00% | 189 |
| 12 | 330 | Distribution Reservoirs and Standpipes | | | | | |
| 13 | 330.1 | Storage Tanks | 70,417 | 0 | 70,417 | 2.22% | 0 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 55,213 | 5.00% | 1,226 |
| 15 | 331 | Transmission and Distribution Mains | 450,034 | 0 | 450,034 | 2.00% | 22,502 |
| 16 | 333 | Services | 55,934 | 0 | 55,934 | 3.33% | 1,119 |
| 17 | 334 | Meters and Meter Installations | 7,848 | 0 | 7,848 | 8.33% | 261 |
| 18 | 335 | Hydrants | 8,774 | 0 | 8,774 | 2.00% | 731 |
| 19 | 336 | Backflow Prevention Devices | 1,428 | 0 | 1,428 | 6.67% | 29 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 4,850 | 6.67% | 323 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 6.67% | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 3,500 | 20.00% | 233 |
| 23 | 341 | Transportation Equipment | 26,456 | 0 | 26,456 | 20.00% | 5,291 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 5,000 | 5.00% | 500 |
| 27 | 346 | Communication Equipment | 8,003 | 0 | 8,003 | 10.00% | 400 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 20 | 0 | 0.00% | 0 |
| 30 | | Rounding | 1 | 0 | 1 | 0.00% | 0 |
| 31 | | Total Plant | \$973,325 | \$122,089 | \$851,236 | | \$37,897 |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 34 | | | | | | | |
| 35 | | | | | | | |
| 36 | | | | | | | |
| 37 | | | | | | | |
| 38 | | | | | | | |
| 39 | | | | | | | |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | | | | | | |
| 43 | | | | | | | |

Composite Depreciation Rate (Depr Exp / Depreciable Plant): 4.45%

CIAC: \$9,643

Amortization of CIAC (Line 33 x Line 34): \$429

Depreciation Expense Before Amortization of CIAC: \$37,897

Less Amortization of CIAC: 429

Test Year Depreciation Expense - Staff: \$37,468

Depreciation Expense - Company: 27,096

Staff's Total Adjustment: \$10,372

References:

Column [A]: Schedule TBH GM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

OPERATING INCOME ADJUSTMENT NO 10 - PROPERTY TAX EXPENSE

| LINE NO. | Property Tax Calculation | [A] STAFF AS ADJUSTED | [B] STAFF RECOMMENDED |
|----------|--|-----------------------------|-----------------------------|
| 1 | Staff Adjusted Test Year Revenues | \$117,320 | \$117,320 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | \$234,640 | \$234,640 |
| 4 | Staff Recommended Revenue, Per Schedule TBH-1 | 117,320 | 185,719 |
| 5 | Subtotal (Line 4 + Line 5) | \$351,960 | \$420,359 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | \$117,320 | \$140,120 |
| 8 | Department of Revenue Mutilplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | \$234,640 | \$280,239 |
| 10 | Plus: 10% of CWIP - Schedule TBH-24 | 5,451 | 5,451 |
| 11 | Less: Net Book Value of Licensed Vehicles - Schedule TBH-19 Line 23 | \$21,165 | \$21,165 |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | \$218,926 | \$264,525 |
| 13 | Assessment Ratio | 18.50% | 18.50% |
| 14 | Assessment Value (Line 12 * Line 13) | \$40,501 | \$48,937 |
| 15 | Composite Property Tax Rate | 11.17% | 11.17% |
| 16 | Staff Test Year Adjusted Property Tax (Line 14 * Line 15) | \$4,523 | \$0 |
| 17 | Company Proposed Property Tax | \$5,052 | |
| 18 | Staff Test Year Adjustment (Line 16-Line 17) | (\$529) | |
| 19 | Property Tax - Staff Recommended Revenue (Line 14 * Line 15) | | \$5,465 |
| 20 | Staff Test Year Adjusted Property Tax Expense (Line 16) | | 4,523 |
| 21 | Increase in Property Tax Expense Due to Increase in Revenue Requirement | | 942 |
| 22 | Increase to Property Tax Expense | | \$942 |
| 23 | Increase in Revenue Requirement | | \$68,399 |
| 24 | Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20) | | 1.38% |

OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES

| LINE NO. | DESCRIPTION | (A) | (B) |
|----------|--|------------|-----------|
| | <i>Calculation of Income Tax:</i> | Test Year | |
| 1 | Revenue | \$117,320 | |
| 2 | Less: Operating Expenses - Excluding Income Taxes | 142,380 | |
| 3 | Less: Synchronized Interest (L17) | 5,514 | |
| 4 | Arizona Taxable Income (L1 - L2 - L3) | (\$30,574) | |
| 5 | Arizona State Income Tax Rate | 6.000% | |
| 6 | Arizona Income Tax (L4 x L5) | | (\$1,834) |
| 7 | Federal Taxable Income (L4 - L6) | (\$28,739) | |
| 8 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (4,311) | |
| 9 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | 0 | |
| 10 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | |
| 11 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | |
| 12 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | |
| 13 | Total Federal Income Tax | | (\$4,311) |
| 14 | Combined Federal and State Income Tax (L6 + L13) | | (\$6,145) |
| 15 | | | |
| 16 | | | |
| 17 | <i>Calculation of Interest Synchronization:</i> | | |
| 18 | Rate Base | \$431,139 | |
| 19 | Weighted Average Cost of Debt | 1.279% | |
| 20 | Synchronized Interest (L16 x L17) | \$5,514 | |
| 21 | | | |
| 22 | | | |
| 23 | Income Tax - Per Staff | (\$6,145) | |
| 24 | Income Tax - Per Company | (1,147) | |
| 25 | Staff Adjustment | (\$4,998) | |

PROPERTY TAX ADJUSTMENT NO. 1 - ADJUSTMENTS TO CONSTRUCTION WORK IN PROGRESS AND ADDITIONS FOR STORAGE TANK NO. 3

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Company Proposed Construction Work in Progress | \$8,591 | \$45,918 | \$54,509 |
| 2 | | | | |
| 3 | Construction Work in Progress | | | |
| | Well No. 6 - Disallowed Prep work and installing 2 pipes. back hoe Bobcat and gradework at Short Spur. No Support Provided by Company, Work performed by Daniel Levie, Check Cancelled and offset against his balance due on his water accounts outside of test year. Per DR TBH 3.10. | | (\$3,500) | |
| 4 | | | | |
| 5 | Reclass from Water Testing - Storage Tank #3 ADEQ Expenses | | 1,800 | |
| 6 | Removal of expenses that were reclassified to GMWC Well #6 | | (89) | |
| 7 | Removal of Expenses from Well #5 Shane Dr. | | (3,198) | |
| 8 | Building Permits Yavapai County 5/22/14 | | 465 | |
| 9 | Building Permits Yavapai County 6/18/14 | | 415 | |
| 10 | Reclass from Well No. 6 - Storage Tank #3 ADEQ Extension Expenses 2/9/2015 | | 400 | |
| | Draw No. 1 Dave Larson 9/12/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 11 | | | | |
| | Draw No. 2 Dave Larson 9/19/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 12 | | | | |
| 13 | Chapman Electrical 1/20/2015 Invoice 32477 | | 34,225 | |
| 14 | Chapman Electrical 4/17/2015 Invoice 32477.1 | | 2,800 | \$45,918 |
| 15 | | | | |
| 16 | Total CWIP for Property Tax Calculation on TBH-22 Line 10 | | X 10% | \$ 5,451 |

References:

Column [A]: Company Balance Sheet Acct. No. 105

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

RELATED PARTY TRANSACTIONS - COMPANY FAILED TO APPROPRIATELY COLLECT REVENUE PURSUANT TO DECISION 71869 (UNCOLLECTED RELATED PARTY TRANSACTIONS IN TEST YEAR)

| [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] | [P] |
|----------------|-----------------------|-------------|------------------|----------------|------------|----------|-----------|------------|--------------|------------|------------|-----------------------------|-------------------------------------|--------------------|--|
| Water Acct No. | Name on Account | Description | Balance 12/31/12 | Account Status | Water | Taxes | Surcharge | Penalty | Adjustments | Payments | Total | Staff Adjusted Revenue 2013 | Staff Adjusted Balance Due 12/31/13 | Date Range | # of Bills Not Appropriately Collected |
| 80.002.01 | Leve, Daniel P 2 | | \$3,569.03 | Active | \$2,873.68 | \$208.53 | \$3.03 | \$811.41 | (\$1,564.42) | \$0.00 | \$2,332.23 | \$3,688.12 | \$7,265.68 | 1.1.13 to 12.31.13 | 24 |
| 81.002.01 | Leve, Daniel P 3 | | 4,381.13 | Active | 2,386.77 | 157.77 | 2.30 | 831.54 | 0.00 | 0.00 | 3,378.38 | 3,220.61 | \$7,759.51 | 1.1.13 to 12.31.13 | 29 |
| 80.001.02 | Granite Mtn Stables 4 | | 428.15 | Active | 2,009.92 | 135.93 | 1.99 | 111.29 | 0.00 | (1,530.00) | 729.13 | 593.20 | \$1,157.28 | 1.1.13 to 12.31.13 | -40 |
| 80.012.00 | Leve, Daniel P 5 | | 244.38 | Active | 842.40 | 48.94 | 0.72 | 50.44 | 0.00 | 0.00 | 942.50 | 893.56 | \$1,186.88 | 1.1.13 to 12.31.13 | 29 |
| Totals | | | \$8,422.69 | | \$8,112.77 | \$551.17 | \$8.04 | \$1,804.68 | (\$1,564.42) | \$1,530.00 | \$7,382.24 | \$8,395.49 | \$17,369.35 | | 122 |

1 Staff did not include any adjustments in the Adjusted Revenues.

2 Per Decision 71869 Page 23 Line 16, Identified as Daniel's Home Property. Adjustment for Water Leak and Late Fees GM TBH 2.9. Balance paid by Mr. Paul Leve \$5,701.26. However, DT GM TBH 3.10 states Check for \$2,201.26 and offset for \$3,500 for check to Mr. Daniel Leve for work on Culvert for \$3,500 Check 5403 (voided) in GM TBH 2.15. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 12/2011 to 11/2013.

3 Payment made by Mr. Paul Leve per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

4 Per Decision 71869 Page 23 Line 17, Identified as Stables Property. Spontaneous Payments made in 5 payments through Test year. Not properly collected on since 9/2010.

5 Payment made by Mr. Paul Leve per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

References:

Column [A]: Company C-1

Column [B]: Testimony, GM TBH 1.42, GM TBH 2.15, GM TBH 2.9, GM TBH 3.10, GM TBH 3.11

Column [C]: Column [A] + Column [B]

| RATE DESIGN | | | | | |
|---|---------------|--|------------------------|--|-------------------------|
| Monthly Usage Charge | Present Rates | | Company Proposed Rates | | Staff Recommended Rates |
| <u>Meter Size (All Classes):</u> | | | | | |
| 3/8 x 3/4 Inch | \$ 25.00 | | \$ 38.50 | | \$ 35.00 |
| 1/4 Inch | 37.50 | | 57.75 | | 52.50 |
| 1/2 Inch | 62.50 | | 96.25 | | 87.50 |
| 1/2 Inch | 125.00 | | 192.50 | | 175.00 |
| 1/2 Inch | 200.00 | | 308.00 | | 280.00 |
| 1/2 Inch | 400.00 | | 616.00 | | 560.00 |
| 1/2 Inch | 625.00 | | 962.50 | | 875.00 |
| 1/2 Inch | 1,250.00 | | 1,925.00 | | 1,750.00 |
| <u>Commodity Charge - Per 1,000 Gallons</u> | | | | | |
| <u>3/8" x 3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.50 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 11.00 |
| Over 10,000 gallons | N/A | | N/A | | 16.10 |
| <u>3/8" x 3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 11.00 |
| Over 10,000 gallons | N/A | | N/A | | 16.10 |
| <u>4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.50 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 11.00 |
| Over 10,000 gallons | N/A | | N/A | | 16.10 |
| <u>4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 11.00 |
| Over 10,000 gallons | N/A | | N/A | | 16.10 |

RATE DESIGN CONT.

Schedule TBH GM-26

Page 2 of 3

1" Meter (All Classes)

| | | | |
|----------------------|------|-------|-----|
| First 10,000 gallons | 6.60 | 10.00 | N/A |
| Over 10,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|----------------------|-----|-----|-------|
| First 15,000 gallons | N/A | N/A | 11.00 |
| Over 15,000 gallons | N/A | N/A | 16.10 |

1 1/2" Meter (All Classes)

| | | | |
|----------------------|------|-------|-----|
| First 20,000 gallons | 6.60 | 10.00 | N/A |
| Over 20,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|----------------------|-----|-----|-------|
| First 30,000 gallons | N/A | N/A | 11.00 |
| Over 30,000 gallons | N/A | N/A | 16.10 |

2" Meter (All Classes)

| | | | |
|----------------------|------|-------|-----|
| First 40,000 gallons | 6.60 | 10.00 | N/A |
| Over 40,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|----------------------|-----|-----|-------|
| First 50,000 gallons | N/A | N/A | 11.00 |
| Over 50,000 gallons | N/A | N/A | 16.10 |

3" Meter (All Classes)

| | | | |
|-----------------------|------|-------|-----|
| First 144,000 gallons | 6.60 | 10.00 | N/A |
| Over 144,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|-----------------------|-----|-----|-------|
| First 100,000 gallons | N/A | N/A | 11.00 |
| Over 100,000 gallons | N/A | N/A | 16.10 |

4" Meter (All Classes)

| | | | |
|-----------------------|------|-------|-----|
| First 225,000 gallons | 6.60 | 10.00 | N/A |
| Over 225,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|-----------------------|-----|-----|-------|
| First 150,000 gallons | N/A | N/A | 11.00 |
| Over 150,000 gallons | N/A | N/A | 16.10 |

6" Meter (All Classes)

| | | | |
|-----------------------|------|-------|-----|
| First 450,000 gallons | 6.60 | 10.00 | N/A |
| Over 450,000 gallons | 7.90 | 12.00 | N/A |

| | | | |
|-----------------------|-----|-----|-------|
| First 300,000 gallons | N/A | N/A | 11.00 |
| Over 300,000 gallons | N/A | N/A | 16.10 |

Construction/Standpipe

| | | | |
|------------|------|-------|-------|
| 11 Gallons | 7.90 | 12.00 | 16.10 |
|------------|------|-------|-------|

Hydrant Meter by Meter Size(Not Individually Assigned)

| | | | |
|-----------------------------|------|-------|-------|
| 11 Usage, Per 1,000 Gallons | 7.90 | 12.00 | 16.10 |
|-----------------------------|------|-------|-------|

RATE DESIGN CONT.

Schedule TBH GM-26

Page 3 of 3

| Other Service Charges | | | | | |
|--|----------------|--|----------------|--|----------------|
| Establishment | \$ 25.00 | | \$ 25.00 | | \$ 25.00 |
| Establishment (After Hours) | 35.00 | | N/A | | N/A |
| Reestablishment (within 12 months) | * | | * | | * |
| Reconnection (Delinquent) | 35.00 | | 35.00 | | 35.00 |
| Reconnection (Delinquent) - After Hours | 45.00 | | N/A | | N/A |
| Meter Test (If Correct) | 35.00 | | 35.00 | | 35.00 |
| Deposit | ** | | ** | | ** |
| Deposit Interest | ** | | ** | | ** |
| NSF Check | 20.00 | | 20.00 | | 20.00 |
| Deferred Payment (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Late Payment Fee (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Moving Customer Meter (Customer Request) | At Cost | | At Cost | | At Cost |
| After Hour Service Charge (at customers request) | N/A | | 25.00 | | 25.00 |

* Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

** Per A.A.C. R14-2-403(B).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

| Service and Meter Installation Charges | | | | | | | |
|--|----------------------|------------------------------|------------------------------------|-----------------------|---------------------------------|---------------------------------------|--------------------------|
| Service Size | Total Present Charge | Proposed Service Line Charge | Proposed Meter Installation Charge | Total Proposed Charge | Recommended Service Line Charge | Recommended Meter Installation Charge | Total Recommended Charge |
| 6/8 x 3/4 Inch | \$ 500.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 |
| 3/4 Inch | 575.00 | 450.00 | 250.00 | 700.00 | 450.00 | 250.00 | 700.00 |
| 1/2 Inch | 650.00 | 575.00 | 300.00 | 875.00 | 575.00 | 300.00 | 875.00 |
| 1/2 Inch | 716.00 | 675.00 | 500.00 | 1,175.00 | 675.00 | 500.00 | 1,175.00 |
| 1/2 Inch | 1,572.00 | 1,000.00 | 1,500.00 | 2,500.00 | 1,000.00 | 1,500.00 | 2,500.00 |
| 1/2 Inch | 2,400.00 | 1,300.00 | 2,000.00 | 3,300.00 | 1,300.00 | 2,000.00 | 3,300.00 |
| 1/2 Inch | 3,516.00 | 1,800.00 | 3,500.00 | 5,300.00 | 1,800.00 | 3,500.00 | 5,300.00 |
| 1/2 Inch | 6,916.00 | 2,800.00 | 6,000.00 | 8,800.00 | 2,800.00 | 6,000.00 | 8,800.00 |
| Over 6 Inch | N/A | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost |

| Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter | | | | | | |
|--|--------------------|-------------|--------------------|----------------|--------------------|------------------|
| Company Proposed | Gallons | | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 6,411 | | \$ 58.51 | \$ 93.01 | \$ 34.50 | 58.96% |
| Median Usage | 3,684 | | 41.21 | 65.74 | \$ 24.53 | 59.53% |
| Staff Recommended | | | | | | |
| Average Usage | 6,411 | | \$ 58.51 | \$ 92.02 | \$ 33.51 | 57.27% |
| Median Usage | 3,684 | | 41.21 | 62.02 | \$ 20.81 | 50.51% |
| Present & Proposed Rates (Without Taxes) General Service 5/8 x 3/4-Inch Meter | | | | | | |
| | Present | | Company Proposed | % | Staff Recommended | % |
| 5/8" x 3/4" | | 5/8" x 3/4" | | 5/8" x 3/4" | | |
| | Minimum Charge | \$ 25.00 | Minimum Charge | \$ 38.50 | Minimum Charge | \$ 35.00 |
| | 1st Tier Rate | 4.40 | 1st Tier Rate | 6.80 | 1st Tier Rate | 6.50 |
| | 1st Tier Breakover | 4,000 | 1st Tier Breakover | 3,000 | 1st Tier Breakover | 3,000 |
| | 2nd Tier Rate | 6.60 | 2nd Tier Rate | 10.00 | 2nd Tier Rate | 11.00 |
| | 2nd Tier Breakover | 10,000 | 2nd Tier Breakover | 8,000 | 2nd Tier Breakover | 10,000 |
| | 3rd Tier Rate | 7.90 | 3rd Tier Rate | 12.00 | 3rd Tier Rate | 16.10 |
| Gallons Consumption | Rates | | Rates | Increase | Rates | Increase |
| | \$ 25.00 | | \$ 38.50 | 54.00% | \$ 35.00 | 40.00% |
| 1,000 | 29.40 | | 45.30 | 54.08% | 41.50 | 41.16% |
| 2,000 | 33.80 | | 52.10 | 54.14% | 48.00 | 42.01% |
| 3,000 | 38.20 | | 58.90 | 54.19% | 54.50 | 42.67% |
| 4,000 | 42.60 | | 68.90 | 61.74% | 65.50 | 53.76% |
| 5,000 | 49.20 | | 78.90 | 60.37% | 76.50 | 55.49% |
| 6,000 | 55.80 | | 88.90 | 59.32% | 87.50 | 56.81% |
| 7,000 | 62.40 | | 98.90 | 58.49% | 98.50 | 57.85% |
| 8,000 | 69.00 | | 108.90 | 57.83% | 109.50 | 58.70% |
| 9,000 | 75.60 | | 120.90 | 59.92% | 120.50 | 59.39% |
| 10,000 | 82.20 | | 132.90 | 61.68% | 131.50 | 59.98% |
| 11,000 | 90.10 | | 144.90 | 60.82% | 147.60 | 63.82% |
| 12,000 | 98.00 | | 156.90 | 60.10% | 163.70 | 67.04% |
| 13,000 | 105.90 | | 168.90 | 59.49% | 179.80 | 69.78% |
| 14,000 | 113.80 | | 180.90 | 58.96% | 195.90 | 72.14% |
| 15,000 | 121.70 | | 192.90 | 58.50% | 212.00 | 74.20% |
| 16,000 | 129.60 | | 204.90 | 58.10% | 228.10 | 76.00% |
| 17,000 | 137.50 | | 216.90 | 57.75% | 244.20 | 77.60% |
| 18,000 | 145.40 | | 228.90 | 57.43% | 260.30 | 79.02% |
| 19,000 | 153.30 | | 240.90 | 57.14% | 276.40 | 80.30% |
| 20,000 | 161.20 | | 252.90 | 56.89% | 292.50 | 81.45% |
| 25,000 | 200.70 | | 312.90 | 55.90% | 373.00 | 85.85% |
| 30,000 | 240.20 | | 372.90 | 55.25% | 453.50 | 88.80% |
| 35,000 | 279.70 | | 432.90 | 54.77% | 534.00 | 90.92% |
| 40,000 | 319.20 | | 492.90 | 54.42% | 614.50 | 92.51% |
| 45,000 | 358.70 | | 552.90 | 54.14% | 695.00 | 93.76% |
| 50,000 | 398.20 | | 612.90 | 53.92% | 775.50 | 94.75% |
| 75,000 | 595.70 | | 912.90 | 53.25% | 1,178.00 | 97.75% |
| 100,000 | 793.20 | | 1,212.90 | 52.91% | 1,580.50 | 99.26% |

ATTACHMENT A

GRANITE MOUNTAIN WATER COMPANY, INC.
Docket No. W-02467A-14-0230
Response to Staff's First Set of Data Requests

Response provided by: Christine Nelson

Title: Admin Assistant

Address: 501 N Hwy 89
Chino Valley, AZ 86323

Data Request Number: TBH 1.34

Q. Land and Land Rights – Please provide all documents for any land and land rights for recent plant additions proposed for post-test year.

A. Please see attached file GM TBH 1-34 Attachment - Land and Land Rights.pdf.

When recorded mail to:
Granite Mountain Water Co. Inc.
PO Box 350
Chino Valley AZ 86323



Granite Mountain Short Spur Easement

This grant of easement was made on the 30th day of October 2013 by
Sandia Properties LLC, a limited liability company duly organized pursuant to the
Laws of the state of Utah, 160 S. Viewcrest Drive, Bountiful, Utah 84010,
Grantor, by and through its Managing Member unto Granite Mountain Water
Company. An Arizona Corporation grantee, encompassing the property set
Forth in exhibit "A" here to attached.

Sandia Properties, LLC.


Johnathan Duke
Managing Member

STATE OF UTAH)

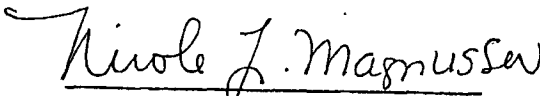
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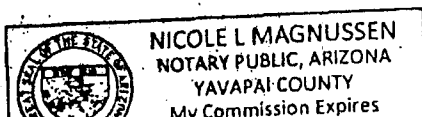
County of)

On this 30th day of October 2013, before me, the undersigned, Notary Public in
and for said State, personally appeared Jonathan Duke, proved to me to be the person
whose name is subscribed above, and acknowledge that he executed the same.

WITNESS MY HAND AND OFFICIAL SEAL

My Commission Expires: 11/3/17


Nicole L. Magnusson
Notary Public



NEXUS SOUTHWEST, LLC
REGISTERED LAND SURVEYORS



212 S. Marina St. • Prescott, Arizona 86303
Phone 928-778-5101 • Fax 928-778-9321 • info@nexus-sw.net

EASEMENT DESCRIPTION

An easement, located within the Southeast Quarter of Section 30, Township 15 North, Range 2 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

ALL of that certain parcel, described in instrument recorded in Book 4936 of Official Records, Page 54, on file in the Yavapai County Recorder's Office, Yavapai County, Arizona,

EXCEPTING THEREFROM THE FOLLOWING DESCRIBED PORTION OF SAID PARCEL:

Commencing at the most Northeasterly corner of the above described parcel;

Thence, North 64°00'30" West, a distance of 121.05 feet, along the North property line of the above described parcel;

Thence, South 25°59'30" West, a distance of 20.00 feet, to the **POINT OF BEGINNING**;

Thence, South 19°00'29" East, a distance of 20.98 feet;

Thence, South 70°59'31" West, a distance of 30.00 feet;

Thence, South 19°00'29" East, a distance of 40.00 feet;

Thence, South 30°29'40" West, a distance of 78.41 feet;

Thence, North 64°00'29" West, a distance of 123.46 feet;

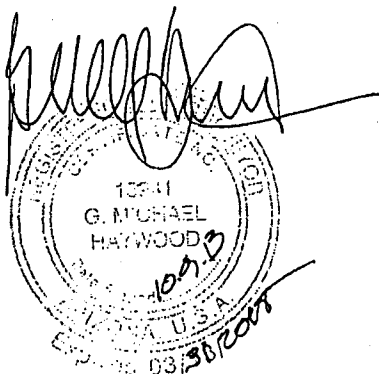
October 9, 2013

Job # 13-014

Granite Mtn Homesites, Short Spur Trail, Well #6 Esmnt Page 1 of 2

Thence, North 30°29'40" East, a distance of 142.94 feet;

Thence, South 64°00'29" East, a distance of 96.48 feet, to the **POINT OF BEGINNING.**



ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

October 9, 2013

Job # 13-014

Granite Mtn Homesites, Short Spur Trail, Well #6 Esmnt Page 2 of 2

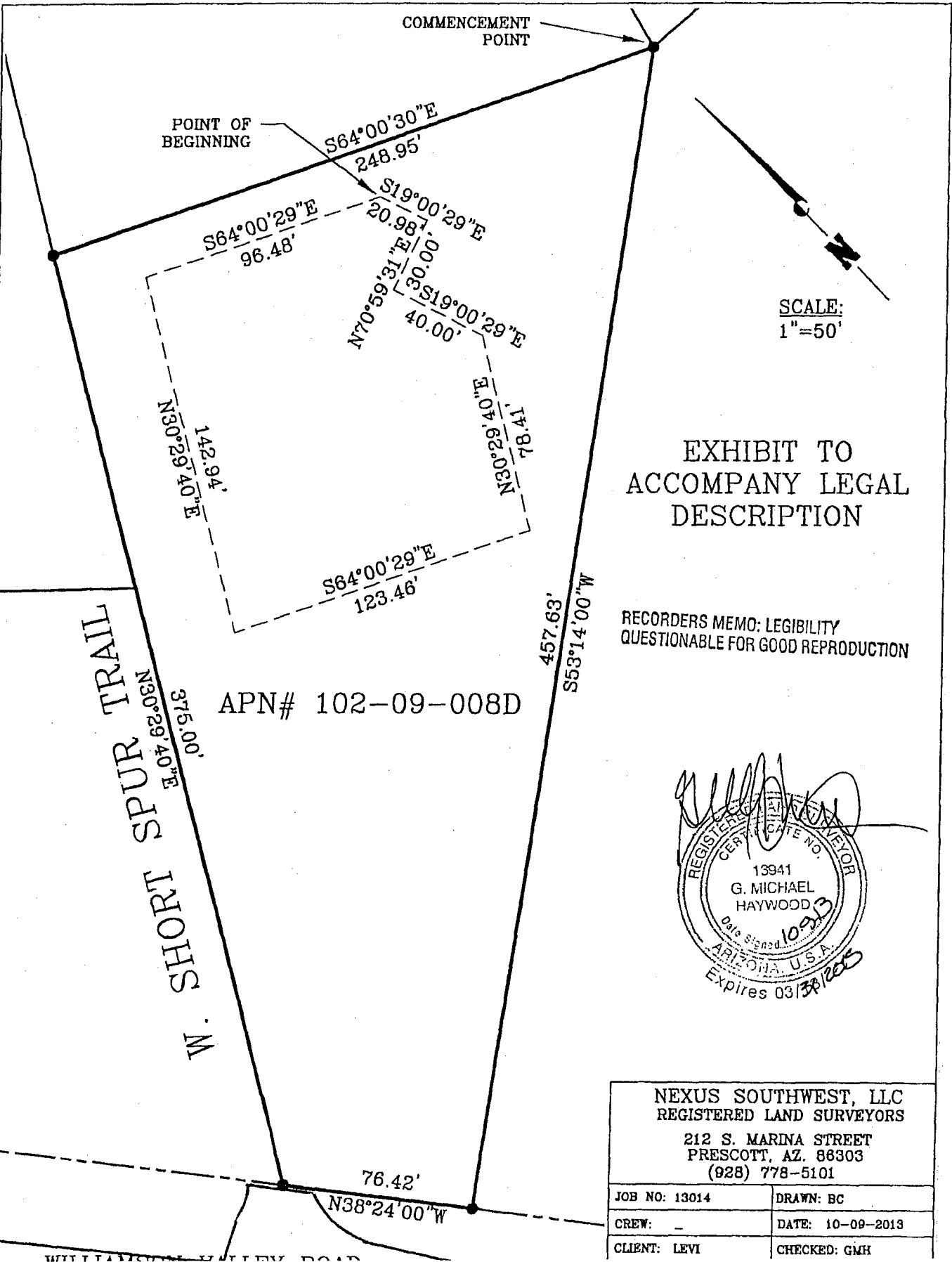
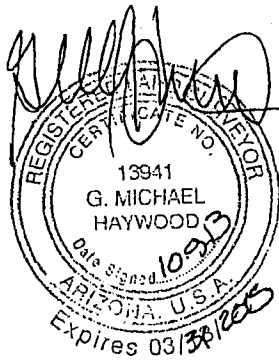


EXHIBIT TO
ACCOMPANY LEGAL
DESCRIPTION

RECORDERS MEMO: LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION



| | |
|---|------------------|
| <p>NEXUS SOUTHWEST, LLC REGISTERED LAND SURVEYORS 212 S. MARINA STREET PRESCOTT, AZ. 86303 (928) 778-5101</p> | |
| JOB NO: 13014 | DRAWN: BC |
| CREW: - | DATE: 10-09-2013 |
| CLIENT: LEVI | CHECKED: GMH |

ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

310 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D RIGHT-OF-WAY

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

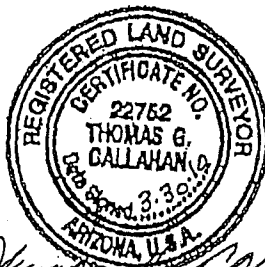
thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

thence, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the POINT OF BEGINNING.

This description yields 2,986 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.

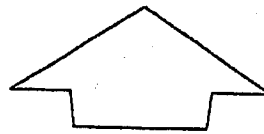


Thomas G. Callahan
EXPIRES 6/30/2011

EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA

RECORDERS MEMO: LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION



NORTH
1"=60'

102-09-008H

APN
102-09-008D

WILLIAMSON VALLEY ROAD

RIGHT-OF-WAY
DESCRIBED

P.O.B.

DAYN & ASSOCIATES, INC.
310 EAST UNION STREET
PRESCOTT, ARIZONA 86303
928-778-7587

555WVR2\DWG\CDP\DESCRIPTIONS\WVR-154.DWG TMS 03/01/2010
SEE 555WVR2\WORD\DESCRIPTIONS\WVR-154.DSC.DOC

ATTACHMENT B

GRANITE MOUNTAIN WATER COMPANY, INC.
Docket No. W-02467A-14-0230
Response to Staff's First Set of Data Requests

Response provided by: Arden Barney
Title: Operations Manager
Address: 501 N Hwy 89
Chino Valley, AZ 86323
Data Request Number: TBH 1.43

Q. Well No. 6 – Please explain or provide the following:

- a. Please provide the complete and full information regarding the costs of acquiring Well No. 6 and the costs of the easements necessary for its use as a production well.
 - b. Please provide an explanation of supporting documentation for Well No. 6 and the easements for access to Well No. 6 and the manner in which the value of each was determined.
- A. a. On October 30, 2013, the Company acquired an easement over the property where Well No. 6 is located. The easement grants the Company use of the existing Well No. 6, an out building used as a well house, access to the property (and Well No. 6), and the land rights needed to install a pipeline to connect Well No. 6 to the Company's existing distribution system. The easement also provides sufficient space to allow for the possibility that a future well be drilled within the easement to replace an existing grandfathered well within 600 feet. The Company has agreed to pay \$75,000 for the easement.
- b. In response to TBH 1.34, the Company provided the recorded easement agreement. As shown in the easement agreement, the Company has an easement over the entire parcel, except an excluded portion where an existing house is located.

The value was determined through negotiations with John and Shauna Duke, Mr. Levie's daughter and son-in-law who acquired the underlying property in December of 2012 from the Federal National Mortgage Association. The total negotiated purchase price for the easement is \$75,000 payable within 15 days after the Company places the well into service. The Company has allocated \$50,000 for the easement and \$25,000 for the existing well.

In agreeing to the \$75,000 purchase price, the Company took into consideration the following:

- The difficulty in finding suitable sites within Granite's service area to drill potable wells that will produce an adequate quantity and quality of water.
- The fact that Well No. 6 is known to provide water of suitable quantity and quality for use as a potable water supply.
- The lack of other suitable and available parcels within Granite's service area with an existing well of suitable quantity and quality for use as a potable water supply.

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's First Set of Data Requests

- The lack of other suitable and available parcels within Granite's service area to drill a well of suitable quantity and quality for use as a potable water supply.
- The Company's inability to finance the purchase a well or well site in advance of placing the well into service and obtaining regulatory recovery.
- The Company's inability to finance the full purchase price of the property on which Well No. 6 was located, particularly in the short time frame available to close a purchase of the bank owned property.
- The willingness of the Duke's to purchase the bank owned property containing the existing Well No. 6 and grant an easement to Granite Mountain that substantially devalues the underlying property.
- The willingness of the Dukes to grant the easement at a significant discount to the full purchase price and market value of the property.
- The willingness of the Dukes to accept deferred payment terms for the value of the easement more closely aligned with the Company's ability to finance and recover the costs of the easement.
- The comparable cost of drilling and developing a new well.
- The price paid by the Duke's for the underlying property.
- The market value of the property, including the existing well.

Based on the foregoing considerations, the Company determined that \$75,000 represented a fair market value for the easement, including use of the existing well, out buildings and other beneficial uses of the easement land available to the Company.

ATTACHMENT C

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's Fifth Set of Data Requests

Response provided by: Arden Barney

Title: Operations Manager

Address: 501 N Hwy 89
Chino Valley, AZ 86323

Data Request Number: TBH 5.1

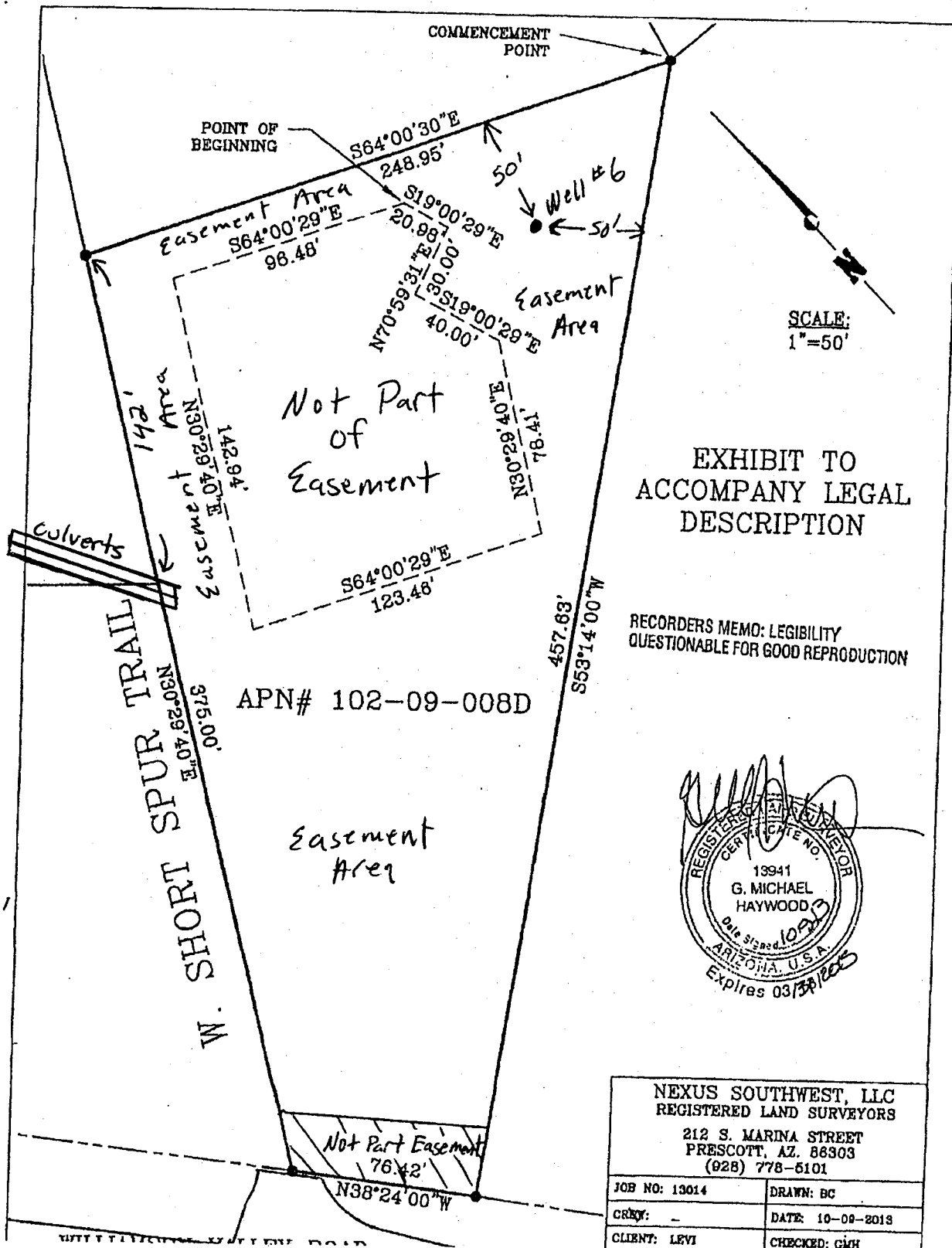
TBH 5.1 Post-Test Year Plant – Construction Work in Progress at 2475 West Short Spur Trail (Parcel No. 102-09-008D) – Please answer and/or provide the requested information for the following:

- a. Per identify the following: Well No. 6 location, outline the easement for Well No. 6 and the culvert location on the attached survey map (Attachment A) provided in TBH 1.34.

A.

- a. See File GM TBH 5-1 Attachment - Easement Map.pdf.

ATTACHMENT A



ATTACHMENT D

CHINO MEADOWS II WATER CO., INC.
DOCKET NO. W-02370A-14-0231
Response to Staff's Second Set of Data Requests

Response provided by: Christine Nelson

Title: Admin Assistant

Address: 501 N Hwy 89
Chino Valley, AZ 86323

Data Request Number: TBH 2.12

Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:

- a. Please explain the payroll bonus provided to Allan R. Feichter on Check 6349 for \$1,000 on December 11, 2013.
- b. Please explain the payroll bonus provided to Christine E. Nelson on Check 6350 for \$1,500 on December 11, 2013.
- c. Please explain the payroll bonus provided to b on Check 6351 for \$1,500 on December 11, 2013.
- d. Please explain the payroll bonus provided to Arden Wayne Barney on Check 6376 for \$13,000 on December 23, 2013.
- e. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
- f. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
- g. Please explain the allocation of one employee on the payroll for the Granite Mountain instead of the direct labor hours being allocated by employee for each company.
- h. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.
- i. Please explain the hourly timekeeping for direct labor hours worked by employee for each company.

- A.
- a. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Allan R. Feichter was paid a bonus.
 - b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Christine E. Nelson was paid a bonus.
 - c. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Denny N. Lopez was paid a bonus.
 - d. Mr. Barney's bonus was paid to reflect the appropriate annual compensation for the position of Operations Manager to which Mr. Barney was promoted in May of 2013.

CHINO MEADOWS II WATER CO., INC.

DOCKET NO. W-02370A-14-0231

Response to Staff's Second Set of Data Requests

The bonus was paid in lieu of increasing Mr. Barney's rate of pay at the time of promotion.

- e. See file CM TBH 2-12 Attachment – Bonus Schedule.pdf for the requested schedule.
- f. No employees are related to any of the officers, board member or family member of the officers of the Company.
- g. As discussed in the Company's response to TBH 1.42, due to payroll software limitations, salaries are allocated using a method where one employee's salary is charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was \$33,942 to Granite Mountain and \$164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.
- h. As discussed in the Company's response to TBH 1.25, the Administrative Assistant and Operations Manager positions allocated to Chino Meadows, provides support related to Mr. Levie's property management activities. The positions are not paid separately for these activities. It is estimated that for the Administrative Assistant up to 2 hours per week is spent on property management activities. It is estimated that for the Operations Manager position up to 4 hours per week is spent on property management activities.
- i. The Company is not sure it understands this question. Salaries are allocated as discussed in the answer to part g. The Company did create job codes in Quickbooks and on its timecards for various companies. The intent of these codes was to allow for detailed allocation of payroll costs between companies. However, the Company discovered that due to Quickbooks software limitations, using the job costing function of Quickbooks to allocate payroll between companies would require significant ongoing accounting and reconciliation effort that was beyond its staff capabilities.

ATTACHMENT E

GRANITE MOUNTAIN WATER COMPANY, INC.
Docket No. W-02467A-14-0230
Response to Staff's Second Set of Data Requests

Response provided by: Christine Nelson

Title: Admin Assistant

Address: 501 N Hwy 89
Chino Valley, AZ 86323

Data Request Number: TBH 2.5

- Q. Salaries and Wages Expenses – Please answer and/or provide the requested information for the following:
- a. Please explain the payroll bonus provided to Jeanette Myrick on Check 5389 for \$2,500 on December 11, 2013. Additionally, please explain why a bonus is provided to an employee that is no longer with the Company.
 - b. Please explain the payroll bonus provided to Nicole Magnussen on Check 5390 for \$1,000 on December 11, 2013.
 - c. Please provide a schedule by employee, date and the amount of bonuses paid by the Company for the past 5 years.
 - d. Are any of the employees related to any of the officers, board member or family member of the officers of the Company?
 - e. Does Nikki Magnussen (Administrative Assistant) perform the same duties as the previous employee Jeanette Myrick (Bookkeeper/Administrative Assistant)? If not, please explain what duties are different.
 - f. Please explain the allocation of one employee on the payroll for the Company instead of the direct labor hours being allocated by employee for each company.
 - g. Please state whether any of the employees of the Company work for any unregulated companies of the owners during their work shifts during the test year? Please provide support if the unregulated companies paid the Company's employees for the same time periods during the test year. If the unregulated company did not pay such employees, please state amount of time per week by unregulated company and by each employee.
- A.
- a. Jeanette Myrick worked for the Company for 25 years and retired from the Company in October 2013. Paul Levie authorized the bonus for work performed through October of 2013 and in recognition of many years of valued service to the Company.
 - b. It is the Company's practice to pay a portion of an employee's annual compensation in the form of a bonus when the employee demonstrates satisfactory performance during the year. Consistent with this practice, Nicole Magnussen was paid a bonus.
 - c. See file GM TBH 2-5 Attachment – Bonus Schedule.pdf for the requested schedule.
 - d. No employees are related to any of the officers, board member or family member of the officers of the Company.
 - e. Yes she performed the same duties.
 - f. As discussed in the Company's response to TBH 1.40, due to payroll software limitations, salaries are allocated using a method where one employee's salary is

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's Second Set of Data Requests

charged to Granite Mountain with all other employees being charged to Chino Meadows. The resulting allocation for the test year was \$33,942 to Granite Mountain and \$164,965 to Chino Meadows. The results in an approximately 17 percent allocation to Granite Mountain with 83 percent being allocated to Chino Meadows. The Company feels this resulting allocation of salaries provides an adequate allocation of payroll expense between the two companies.

- g. As discussed in the Company's response to TBH 1.24, the Administrative Assistant position allocated to Granite Mountain, provides support related to Mr. Levie's property management activities. The position is not paid separately for these activities. It is estimated that up to 16 hours per week is spent on property management activities.

ATTACHMENT F

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's Second Set of Data Requests

Response provided by: Christine Nelson

Title: Admin Assistant

Address: 501 N Hwy 89
Chino Valley, AZ 86323

Data Request Number: TBH 2.9

Q. Specific Account History from Data Request TBH 1.42 Daniels' Home Property (per Decision 71869 Pg. 23, Line 16) David P. Levie Account 80.002.01 – Please answer and/or provide the requested information for the following:

- a. Please provide the complete customer history for this account from January 2010 to October 2014.
- b. Please explain all billing adjustments specifically the adjustment done on December 31, 2013 to this account. See Attachment A.
- c. Please explain why this account for water services was not terminated for failure to make the appropriate payments (No payments in the test year). The beginning balance on this account in the test year is \$3,369.03 and the ending balance at the end of the test year is \$5,701.26 (Balance without billing adjustments done on December 31, 2013 is \$7,265.68). See Attachment A.
- d. Please explain the Company's contact with Customers with abnormally high usage water consumption. Specifically, the above mentioned account's high usage in March 2013 and April 2013. The increase from February 2013 to March 2013 is 94,440 gallons and from February 2013 to April to 2013 is 131,060 gallons. See Attachment A.
- e. Please identify the name of the employees by month that read this meter in the test year.

A.

- a. See file GM TBH 2-9 Attachment - Customer History Daniel Levie 8000201.pdf for the requested history.
- b. The \$1,564.42 adjustment was made at the direction of Mr. Paul D. Levie to remove late fees and adjust for a water leak. Once the adjustment was recorded, Mr. Paul D. Levie paid the balance of \$5,701.26, bringing the account current.
- c. During the test year the Company was not following procedure for shut off's for Granite Mountain Water Company. When new employee (Christine Nelson) was hired and was being trained by Pam Harbeson, she was told by the former employee not to perform shut-offs in Granite Mountain, but she was not given an explanation as to why. After a few months the new employee questioned this procedure and began to look through the accounts and noticed multiple past due bills. The matter was brought to the attention of the Operations Manager at which time she was notified that that proper procedure was not being followed and that notification and shut-offs

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's Second Set of Data Requests

should be done every month. At that time, the Company sent out late notices to all delinquent accounts and began collecting monies that were due.

In regards to this specific account, it was brought to Paul D. Levie's attention that this bill had not been paid. After investigation it was determined that the bill was being sent to Daniel Levie's home address in the Granite Mountain service area, a home occupied by Mr. Daniel Levie's ex-wife. Mr. Daniel Levie resides in Utah and did not receive a copy of the billings. After discussion between Paul D. Levie and Danny Levie, it was decided that Mr. Paul D. Levie would be responsible for paying the bill.

Due to the fact that late notices/shuts off were not being sent, Mr. Daniel Levie did not receive copies of the bills and the miscommunication between Paul Levie and Daniel Levie this bill was not brought current until January 2014.

- d. Normal procedure is as follows: When entering meter reads Caselle is programmed to beep with a warning if the meter read is a noticeable amount higher or lower than the previous bill at which time the admin assistant creates a service order requesting the Field Tech to re-read the meter and check for any leaks at the meter. If the meter read is correct a phone call is made to the customer and a follow up letter is sent regarding a possible leak on the customer's property.
- e. Meter reading is performed by a pair of employees each month. One Field Tech reads the meter and the other writes it down to ensure that the meters are read correctly. The pair of employees reading the meters during the test year is as follows.

| | |
|-----------|------------------|
| January- | Denny Lopez |
| | Arden Barney |
| February- | Denny Lopez |
| | Arden Barney |
| March- | Denny Lopez |
| | Arden Barney |
| April- | Denny Lopez |
| | Arden Barney |
| May- | Denny Lopez |
| | Nathan Pallachne |
| June- | Denny Lopez |
| | Nathan Pallachne |
| July- | Denny Lopez |
| | Alan Feitcher |
| August- | Denny Lopez |
| | Alan Feitcher |
| Sept.- | Denny Lopez |
| | Alan Feitcher |
| Oct.- | Denny Lopez |
| | Alan Feitcher |
| Nov.- | Denny Lopez |
| | Alan Feitcher |
| Dec.- | Denny Lopez |
| | Alan Feitcher |

ATTACHMENT G

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's First Set of Data Requests

Response provided by: Ray L. Jones

Title: Consultant

Address: 18835 North Thompson Peak Parkway, Suite 215
Scottsdale, AZ 85255

Data Request Number: TBH 1.31

-
- Q. Notes/Accounts Receivable from Associated Companies – Referring to the Balance Sheet, Page 21 Acct. No. 146. Please provide explain and provide the following:
- a. Please provide a detailed schedule by month from January 2010 to December 2013. The detailed schedule should include the date, amount, check number, associated company, purpose of the note/accounts receivable, payment information and the balance due at the end of each month.
 - b. Please provide specific details for the amounts due from each specific associated company at the end of the test year.
- A. a. See file GM TBH 1-31 Attachment – Account Detail Receivable Assoc Company.pdf for the requested schedule.
- b. 146.03- Due from CMII Water Co- Other – This account represents funds paid on behalf of Chino Meadows for various categories of expenses incurred by Chino Meadows in November of 2012. The balance is not a receivable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Chino Meadows is not required to make any payments to Granite Mountain. Should Chino Meadows provide funds to or on behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was \$19,891.00.
- 146.04- Due from ALWC (Antelope Lakes Water Co) - This account represents funds paid on behalf of Antelope Lakes for various categories of expenses incurred by Antelope Lakes. The balance is not a receivable in the traditional sense. The balance would be more properly characterized as an intercompany balance, similar as to what would be recorded between a parent holding company and utility subsidiary companies or between utility subsidiary companies when cash is transferred from one utility subsidiary to the parent holding company or another utility subsidiary and vice versa. Antelope Lakes is not required to make any payments to Granite Mountain. Should Antelope Lakes provide funds to or on behalf of Granite Mountain, the intercompany balance would be reduced. The balance at the end of the test year was 8,782.46.

GRANITE MOUNTAIN WATER COMPANY, INC.

Docket No. W-02467A-14-0230

Response to Staff's First Set of Data Requests

146.08- Due GFL CMI Tract B Water Line – This account represent funds advanced to Desert Snow Construction on behalf of Mr. Levie. The funds paid for a waterline serving property owned by Mr. Levie. The property is within the Town of Chino Valley water service area and is not associated with any of the water utilities owned by Mr. Levie. The balance is due and payable upon demand by Granite Mountain. The balance at the end of the test year was 15,195.58.

146.10- Due from PDL trust - This account represent funds advanced to or on behalf of Mr. Levie. The funds were for personal use. The balance is due and payable upon demand by Granite Mountain. The balance at the end of the test year was 15,000.00

146.11- Due from Zooki - This account represent funds advanced on behalf of Mr. Levie's son, Daniel P. Levie. The funds covered expenses for office support provided to Mr. Levie by an outside contractor that were billed to Granite Mountain in error. The balance is due and payable upon demand by Granite Mountain. The balance at the end of the test year was 260.00.

Granite Mountain Water Co., Inc.

Account QuickReport

As of December 31, 2013

11/10/14
Accrual Basis

| Type | Date | Num | Name | Memo | Split | Amount | Balance |
|---|------------|-----------|------------------------|--|-------------------|------------|-----------|
| 146.00 - Receivable-Associated Companies | | | | | | | |
| 146.02 - Chino Meadows II | | | | | | | |
| Check | 01/13/2010 | Electr... | Chino Meadows II ... | Loan to cover Payroll Tax Liabilities | 131.01 - Chec... | 2,000.00 | 45,110.58 |
| Deposit | 02/19/2010 | | Chino Meadows II ... | Payment of Loan from CMWC 12/22/09 | 131.01 - Chec... | -6,000.00 | 6,000.00 |
| Deposit | 02/19/2010 | | Chino Meadows II ... | Payment of Loan from CMWC 01/13/10 | 131.01 - Chec... | -2,000.00 | 8,000.00 |
| Check | 04/21/2011 | 1579 | Chino Meadows II ... | Loan to CM for Main Line Extension Rhonda to Cot... | 131.01 - Chec... | 13,353.00 | 2,000.00 |
| Deposit | 08/02/2011 | Trans... | Chino Meadows II ... | Repayment of Loan for Center St Ext (McMains) | 131.04 - Natio... | -13,353.00 | 13,353.00 |
| Total 146.02 - Chino Meadows II | | | | | | | |
| | | | | | | -6,000.00 | 0.00 |
| 146.03 - Due from CMIL Water Co | | | | | | | |
| 146.031 - Due from ML | | | | | | | |
| Check | 01/12/2012 | 5008 | Bob's Complete Aut... | 1996 Ford-Due from ML-Clutch Bushing, Clutch Li... | 131.04 - Natio... | 868.25 | 0.00 |
| Deposit | 12/19/2012 | 9408... | Matthew Lauterbach | Loan for Auto Repairs | 131.04 - Natio... | -868.25 | 868.25 |
| Total 146.031 - Due from ML | | | | | | | |
| | | | | | | 0.00 | 0.00 |
| 146.03 - Due from CMIL Water Co - Other | | | | | | | |
| Check | 10/13/2011 | electr... | Chino Meadows II ... | Transfer from GM to CM to cover Accts Payable | 131.04 - Natio... | 10,000.00 | 10,000.00 |
| Deposit | 10/26/2011 | | Chino Meadows II ... | Reim. for Tnsfr from GM to CM for Acct Payable | 131.04 - Natio... | -10,000.00 | 0.00 |
| Check | 12/12/2011 | 1729 | Western Sales Man... | 2005 Chevy 2500HD VIN: 1gbgc24u65e269326 | 131.04 - Natio... | 9,245.75 | 9,245.75 |
| Check | 12/21/2011 | Counter | ADOT Motor Vehicl... | Registration & Title 2005 Chevy C2500HD Service ... | 131.04 - Natio... | 257.91 | 9,503.66 |
| Check | 12/21/2011 | Counter | ADOT Motor Vehicl... | (3) Vehicle Title Replacements after Fire | 131.04 - Natio... | 12.00 | 9,515.66 |
| Check | 01/12/2012 | 5008 | Bob's Complete Aut... | 2005 Chevy-Pitman Arm, Outer Tie Rod End, Eng ... | 131.04 - Natio... | 1,104.07 | 10,619.73 |
| Check | 01/12/2012 | 5009 | Advanced Info Syst... | Inv 9110 Dec 2011 Billing | 131.04 - Natio... | 342.15 | 10,961.88 |
| Check | 01/12/2012 | 5010 | Postmaster | Postage Dec 2011 Billing | 131.04 - Natio... | 354.72 | 11,316.60 |
| Check | 01/12/2012 | 5011 | AZCOM Systems | Inv 1520 Setup phone lines at new office | 131.04 - Natio... | 380.00 | 11,696.60 |
| Check | 01/20/2012 | 5016 | Bennett Oil | Acct 263 Inv 9327 01/15/12 | 131.04 - Natio... | 426.06 | 12,122.66 |
| Check | 01/20/2012 | 5019 | Hill Brothers Chemi... | Inv 4356308 (12) 13-gal 12.5% Chlorine | 131.04 - Natio... | 381.08 | 12,503.74 |
| Check | 01/24/2012 | 5021 | Staples | CMIL Fire Loss Office Supplies | 131.04 - Natio... | 5,357.33 | 17,861.07 |
| Check | 01/24/2012 | 5022 | Craig A Marks PLC | Due CMIL-Rate Case 10.30hrs Legal Services | 131.04 - Natio... | 3,654.53 | 21,515.60 |
| Check | 01/24/2012 | 5023 | Arcor Water Solutio... | Due CMIL-Rate Case 6.4hrs Consultant Fees | 131.04 - Natio... | 1,184.00 | 22,699.60 |
| Check | 03/05/2012 | 5045 | Chino Investments I... | Acct CHINMEA MiniEx/Trash Pump Shop Break | 131.04 - Natio... | 299.05 | 22,998.65 |
| Check | 03/05/2012 | 5046 | Granite Portables | Inv 3760 Mar 2012 | 131.04 - Natio... | 50.94 | 23,049.59 |
| Check | 03/05/2012 | 5047 | Bennett Oil | Acct 263 Inv 94251 02/29/12 | 131.04 - Natio... | 431.12 | 23,480.71 |
| Check | 03/05/2012 | 5048 | Citibank | CitiTravel 11.99; Cocos 59.68 | 131.04 - Natio... | 71.67 | 23,552.38 |
| Check | 03/05/2012 | 5049 | Verizon Wireless | Acct 971562076-00001 Mar 2012 | 131.04 - Natio... | 282.45 | 23,834.83 |
| Check | 03/05/2012 | 5050 | CenturyLink | Acct 928-717-2616F 2112 Mar 2012 | 131.04 - Natio... | 13.98 | 23,848.81 |
| Check | 03/05/2012 | 5050 | CenturyLink | Acct J-520-111-1922 537M Mar 2012 | 131.04 - Natio... | 387.88 | 24,236.69 |
| Check | 03/05/2012 | 5051 | Arizona Office Tech... | Cust 300960 Inv 01U982 Mar 2012 | 131.04 - Natio... | 32.51 | 24,269.20 |
| Check | 03/05/2012 | 5052 | Staples | Acct 601110005034798 Mar 2012 | 131.04 - Natio... | 1,361.60 | 25,630.80 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Storage Boxes -Fire | 131.04 - Natio... | 295.08 | 25,925.88 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Replacement Checks -Fire | 131.04 - Natio... | 835.15 | 26,761.03 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Replacement Deposit Slips -Fire | 131.04 - Natio... | 220.58 | 26,981.61 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Office Supplies -Fire | 131.04 - Natio... | 738.90 | 27,720.51 |
| Check | 03/21/2012 | 5062 | American Express | USPS-Stamps for Office -Fire | 131.04 - Natio... | 532.00 | 28,252.51 |
| Check | 03/21/2012 | 5062 | American Express | Paypal-NARUC Chart of Accts -Fire | 131.04 - Natio... | 18.00 | 28,270.51 |
| Check | 03/21/2012 | 5062 | American Express | Stamps.com-Postage | 131.04 - Natio... | 100.00 | 28,370.51 |
| Check | 03/21/2012 | 5062 | American Express | Highway Tech-(4) Type 2 Barricades | 131.04 - Natio... | 262.44 | 28,632.95 |
| Check | 03/21/2012 | 5062 | American Express | Cocos-File Cabinets Meal -Fire | 131.04 - Natio... | 25.71 | 28,658.66 |
| Check | 03/21/2012 | 5062 | American Express | Markets West-(5)Blk Fire File, (3) Belg Lat File Ca... | 131.04 - Natio... | 1,639.50 | 30,298.16 |

Account QuickReport

As of December 31, 2013

| Type | Date | Num | Name | Memo | Split | Amount | Balance |
|---|------------|-----------|----------------------|---|-------------------|------------|-----------|
| Check | 03/21/2012 | 5062 | American Express | Walgreens-Ink Refill -Fire | 131.04 · Natio... | 29.83 | 30,327.99 |
| Check | 03/21/2012 | 5062 | American Express | Samsung-Paul's Cell Charger -Fire | 131.04 · Natio... | 32.01 | 30,360.00 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Office Supplies -Fire | 131.04 · Natio... | 133.02 | 30,493.02 |
| Check | 03/21/2012 | 5062 | American Express | National Office Lq(4)Vert Legal File, (1)Blk Stora... | 131.04 · Natio... | 650.34 | 31,143.36 |
| Check | 03/21/2012 | 5062 | American Express | Highway Tech-Lights Judy/Porcupine Break per CV | 131.04 · Natio... | 131.23 | 31,274.59 |
| Check | 03/21/2012 | 5062 | American Express | Costco-Office Supplies -Fire | 131.04 · Natio... | 203.43 | 31,478.02 |
| Check | 03/21/2012 | 5062 | American Express | Walgreens-Ink for HP Photosmart Printer -Fire | 131.04 · Natio... | 52.95 | 31,530.97 |
| Check | 03/21/2012 | 5062 | American Express | Amazon-Warning Lights for 2005 Chevy 2500HD | 131.04 · Natio... | 156.00 | 31,686.97 |
| Check | 03/21/2012 | 5062 | American Express | Staples-HP Photosmart Printer -Fire | 131.04 · Natio... | 65.77 | 31,752.74 |
| Deposit | 10/12/2012 | 5529 | American Express | Stamps.com-Postage Fee | 131.04 · Natio... | 24.99 | 31,777.73 |
| Check | 11/09/2012 | Electr... | Chino Meadows II ... | Reimb for Exp related to Office Fire | 131.04 · Natio... | -31,777.73 | 0.00 |
| Check | 11/14/2012 | Electr... | Chino Meadows II ... | GM to CM to cover Insurance Premium | 131.04 · Natio... | 10,891.00 | 10,891.00 |
| Deposit | 12/27/2012 | | Chino Meadows II ... | GM to CM to cover Management Fee | 131.04 · Natio... | 30,000.00 | 40,891.00 |
| Total 146.03 · Due from CMII Water Co - Other | | | | | | | 19,891.00 |
| Total 146.03 · Due from CMII Water Co | | | | | | | 19,891.00 |
| 146.04 · Due from ALWC | | | | | | | 23,915.00 |
| General Jou... | 09/14/2010 | m1091... | | | | | |
| Check | 07/15/2011 | Electr... | Antelope Lakes Wa... | Reclassify Loan from EQ to ALWC | 234.01 · Due t... | -15,885.00 | 8,030.00 |
| Check | 01/20/2012 | 5018 | APS | Transfer to Cover Expenses | 131.04 · Natio... | 500.00 | 8,530.00 |
| Total 146.04 · Due from ALWC | | | | | | | 8,782.46 |
| 146.08 · Due GFL CMI Tract B Water Line | | | | | | | 8,782.46 |
| Total 146.08 · Due GFL CMI Tract B Water Line | | | | | | | 15,195.58 |
| 146.09 · Due from DPL | | | | | | | 0.00 |
| Check | 07/09/2010 | 1422 | Bennett Oil | Inv 50596 Fuel | 131.01 · Chec... | 2,429.87 | 2,429.87 |
| Check | 07/09/2010 | 1423 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 2,179.87 |
| Check | 08/04/2010 | 1435 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 1,929.87 |
| Check | 08/26/2010 | 1445 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 1,679.87 |
| Check | 09/23/2010 | 1459 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 1,429.87 |
| Check | 10/25/2010 | 1478 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 1,179.87 |
| Check | 11/18/2010 | 1495 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 929.87 |
| Check | 02/24/2011 | 1541 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 679.87 |
| Check | 03/24/2011 | 1554 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 429.87 |
| Check | 04/21/2011 | 1571 | Daniel P. Levie | Reimb Fuel | 131.01 · Chec... | -250.00 | 179.87 |
| Check | 05/25/2011 | 1605 | Daniel P. Levie | Final Reim Fuel | 131.04 · Natio... | -179.87 | 0.00 |
| Total 146.09 · Due from DPL | | | | | | | 0.00 |
| 146.10 · Due from PDL Trust | | | | | | | 0.00 |
| Check | 08/30/2011 | 1668 | Paul D. Levie Trust | Loan to PDL Trust | 131.04 · Natio... | 5,000.00 | 5,000.00 |
| General Jou... | 12/31/2013 | JFL | | Reflected Payment for personal item | ask my accou... | 10,000.00 | 15,000.00 |
| Total 146.10 · Due from PDL Trust | | | | | | | 15,000.00 |

Account QuickReport

As of December 31, 2013

| Type | Date | Num | Name | Memo | Split | Amount | Balance |
|--|------------|------|--------------------|----------------------|-------------------|--------|-----------|
| 146.11 · Due from Zooki | | | | | | | |
| Check | 06/28/2013 | 5298 | Saundra Wellington | Office Support Zooki | 131.04 · Natio... | 260.00 | 0.00 |
| Total 146.11 · Due from Zooki | | | | | | 260.00 | 260.00 |
| Total 146.00 · Receivable-Associated Companies | | | | | | | 59,129.04 |
| TOTAL | | | | | | | 59,129.04 |

LoopNet Commercial Leases in Chino Valley

Search Results for Chino Valley, AZ

4 Selected CLEAR Watch Properties Create Report

Sort Show Rent 11-7 of 7 Listings (7 Bldgs)

Be the Featured Local Broker

Your Ad Here Target active tenants and investors in your market

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Start a New Search

Refine Your Search

Polygon Search

Draw Polygon

Lease Rate (\$/SF)

0.00 to Go

Annual Monthly

Space Avail. (SQFT)

0 to Go

Keywords

Do

Property Types

Overnight All

☒ Industrial

☒ Office

☒ Retail

☒ Land

☒ Special Purpose

Show Property Subtypes

Turn on Sug...

Switch to Map View

For Lease Chino Valley, AZ Search

Save Search & Email Alerts

Premium Listings

High traffic area in Chino Valley

Chino Valley, AZ

\$6.00/sf annual plus NNN at \$1.75/sf annual & 3% Town of Chino Valley Rental Tax. Terms and conditions negotiable. 1030 +/- sf kitchen with...

452 - 4,896 SF

\$8 /SF/Year

1 Space

4,896 SF Bldg

Special Purpose (Other)

CHINO VALLEY PROFESSIONAL PLAZA

Chino Valley, AZ

Located in the Chino Valley Business Park & Marketplace, the property was constructed in 2004-2005 with pebbled pole detail and rock facing...

756 - 1,680 SF

\$10 /SF/Year

3 Spaces

7,564 SF Bldg

Office Building

100 N State Route 89

Chino Valley, AZ

Layman Plaza Office Suites, 2 Suites available. Each suite has a separate front entrance. Tenant pays electric, gas & data/phone service.

950 SF

\$8 /SF/Year

2 Spaces

2,992 SF Bldg

Office Building

SHOWROOM, OFFICE & WAREHOUSE, CHINO VALLEY AZ

Chino Valley, AZ

Office space of 2,323 sf with 4 offices, 1 large open room, 2 restrooms and warehouse space. Warehouse has sliding doors, high ceilings and...

3,200 - 4,800 SF

\$5 - \$7 /SF/Year

2 Spaces

4,800 SF Bldg

Office Showroom

Standard Listings

100%

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A RATE INCREASE.)
_____)

DOCKET NO W-02467A-14-0230

SURREBUTTAL

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

SEPTEMBER 10, 2015

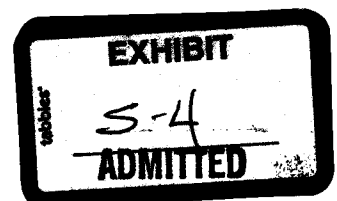


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EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY INC.
DOCKET NO. W-02467A-14-0230

Staff's surrebuttal testimony responds to Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or Company) rebuttal testimony on the following issues:

1. Cost Allocations
2. Rate Base
 - a. Post-Test Year Plant in Service
 - b. Contributions in Aid of Construction ("CIAC") for Unsupported Plant and Amortization of CIAC
 - c. Cash Working Capital Allowance
3. Operating Income
 - a. Allocations to Water Companies
 - b. Depreciation Expense
 - c. Property Tax Expense
 - d. Income Tax Expense
4. Rate Design
5. Penalties
6. Other Issues

In direct testimony, Staff recommended a revenue increase in total operating revenue of \$185,719, a \$68,399 (58.30 percent) increase, to provide a \$34,625 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$431,139. OCRB and FVRB are deemed to be the same.

However in Staff's surrebuttal testimony, Staff recommends a revenue increase in total operating revenue of \$169,647, a \$52,327 (44.60 percent) increase, to provide a \$34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$426,930 as shown on Surrebuttal Schedule TBH GM-1. Again, OCRB and FVRB are deemed to be the same.

The Company and Staff's recommended revenue requirements and associated rate increase are summarized as follows:

| | <u>Revenue Requirement</u> | <u>Revenue Change</u> | <u>% Change</u> |
|---------------------|----------------------------|-----------------------|-----------------|
| Company Application | \$181,668 | \$64,221 | 55.48% |
| Staff Direct | \$185,719 | \$68,399 | 58.30% |
| Company Rebuttal | \$177,270 | \$59,950 | 51.10% |
| Staff Surrebuttal | \$169,647 | \$52,327 | 44.60% |

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Teresa B. Hunsaker. I am a Public Utilities Analyst III working for the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Teresa B. Hunsaker who filed direct testimony in this case?

A. Yes.

II. PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to testify on behalf of Staff regarding the changes Staff made to its direct testimony and respond to the rebuttal testimony of Mr. Ray L. Jones, witness for Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or "Company").

Q. What issues will you address?

A. I will address the issues listed below that are discussed in the rebuttal testimony of the Company's witness Mr. Ray L. Jones.

1. Cost Allocations

2. Rate Base

a. Post Test Year Plant in Service

b. Contributions in Aid of Construction ("CIAC") for Unsupported Plant and Amortization of CIAC

c. Cash Working Capital Allowance

- 1 3. Operating Income
- 2 a. Allocations to Water Companies
- 3 b. Depreciation Expense
- 4 c. Property Tax Expense
- 5 d. Income Tax Expense
- 6 4. Rate Design
- 7 5. Penalties
- 8 6. Other Issues

9

10 **Q. Is Staff enclosing new schedules?**

11 A. Yes. Staff has made changes to direct testimony schedules and has provided new surrebuttal
12 schedules.

13

14 **Q. Did you attempt to address every issue raised by Granite Mountain in its rebuttal**
15 **testimony?**

16 A. No. I limited my discussion to certain issues as outlined below. My silence on any particular
17 issue raised in the Company's rebuttal testimony does not indicate that I agree with the
18 Company's stated rebuttal position on the issue. Rather, where I do not respond, I rely on
19 my direct testimony.

20

21 **III. SUMMARY OF PROPOSED REVENUES**

22 **Q. Please summarize Staff's recommended revenue.**

23 A. Staff's recommended rates would produce total operating revenue of \$169,647, a \$52,327
24 (44.60 percent) increase, from Staff's adjusted test year revenue of \$117,320, to provide a
25 \$34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB of
26 \$426,930 as shown on Surrebuttal Schedule TBH GM-1. Staff's recommended rates would

1 increase the typical residential 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons
2 from \$41.21 to \$59.84, for an increase of \$18.63 or 45.21 percent as shown on Surrebuttal
3 Schedule TBH GM-27. OCRB and FVRB are deemed to be the same in Staff's Schedules.
4

5 **IV. COST ALLOCATIONS**

6 **Q. Did Staff review the Company's proposed allocations in the Company's rebuttal**
7 **testimony?**

8 **A. Yes.**
9

10 **Q. What was the Company's proposed common cost allocations?**

11 **A.** Granite Mountain is proposing the use of two allocators in determining common expense
12 allocations. Those two allocation factors would be based on customer count (weighted) and
13 gross plant. The Company's gross plant allocation percentage uses test year plant balances
14 and does not consider the impact of recognizing post-test year plant additions for Granite
15 Mountain. The result would be to allocate 19.5 percent of common cost to Granite
16 Mountain, 80.5 percent to Chino Meadows, and 0.0 percent to Antelope Lakes, all beginning
17 in 2016.
18

19 **Q. Does Staff accept the Company's proposal for cost allocation method? Please explain.**

20 **A.** No. Staff reviewed and analyzed several alternative scenarios including those proposed by the
21 Company. These scenarios included the inclusion of the post-test year plant for Granite
22 Mountain, using gross plant versus net plant and weighting the different factors. Although
23 Antelope Lakes has few customers, Company employees still service, repair and operate this
24 utility and therefore, costs should be allocated accordingly. Based on the review of numerous
25 different scenarios, Staff has modified its original 4-factor allocation recommendation and
26 now recommends the use of a simpler method.

1 **Q. What allocation basis is Staff now recommending?**

2 A. Staff is recommending the use of the following allocation percentages: Antelope Lakes 1.0
3 percent, Chino Meadows 75.0 percent and Granite Mountain 24.0 percent as shown on
4 Surrebuttal Schedule TBH GM-20e. Staff recommends that these allocation percentages be
5 considered to be fixed, and that the percentage not be changed for this case regardless of the
6 levels of post-test year plant ultimately allowed by the Commission. The reason Staff is
7 recommending the use of these specific allocation percentages is that the level of post-test
8 year plant to be allowed is still at issue and changes in the gross/net plant levels would drive a
9 different expense allocation mix if gross or net plant was one of the allocation factors, and we
10 do not believe that repeated recalculation of these allocators is required. However, Staff will
11 revisit the allocation basis issue in the next rate case. Therefore it recommends each utility
12 company should be prepared to support the reasonableness of the allocation basis.
13

14 **V. RATE BASE**

15 **Q. What changes did Staff make to Rate Base in surrebuttal testimony?**

16 A. Staff made changes to the following adjustments:

- 17 1. Rate Base Adjustment No. 1 – Post-Test Year Plant
18 2. Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC and the
19 Amortization of CIAC
20 3. Rate Base Adjustment No. 8 – Cash Working Capital Allowance
21

22 *Rate Base Adjustment No. 1 – Post-Test Year Plant in Service*

23 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning post-test year**
24 **plant?**

25 A. Yes.
26

1 **Q. What were the Company's main concerns?**

2 A. Staff classifies the cost of a well meter of \$1,196 to Plant Account 334 instead of Plant
3 Account 311. The Company pointed out a mathematical error in Plant Account 311. The
4 Company and Staff disagree on the value of the easement, structures and well for Well No. 6.
5 Staff disagrees in the inclusion of cost for Tank No. 3 that is currently not in service. The
6 Company provided the cost of replacing a pump at Well No. 4.

7
8 **Q. Did Staff make changes to Rate Base Adjustment No. 1 – Post-Test Year Plant?**

9 A. Yes.

10
11 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
12 **for the cost of the well meter?**

13 A. Staff reclassified the cost of the well meter of \$1,196 from Plant Account 334 to Plant
14 Account 311.

15
16 **Q. Did Staff make a mathematical error in its calculations for this adjustment in plant**
17 **account 311?**

18 A. Yes.

19
20 **Q. Did Staff correct the error in its schedules for this adjustment in plant account 311?**

21 A. Yes. Staff corrected the mathematical error in Plant Account 311.

22
23 **Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant**
24 **for the value of the easement, structures and well for Well No. 6?**

25 A. Staff's Engineer has reviewed the appraisal provided by the Company and the Company's
26 rebuttal adjustments. Staff's Engineer has determined that the costs are reasonable for Well

No. 6 at \$16,000 and \$1,232 for Well House (Building 5). Staff has adjusted in 2015 the cost estimates for the Well No. 6 (Acct. 307) from \$25,000 to \$16,000 and the Well House (Acct. 304) for Well No. 6 from \$0 to \$1,232. These adjustments result in a reduction of \$7,768 in the estimated costs for Well No. 6 and Well House for Well No. 6 from \$25,000 to \$17,232. Staff continues to disagree with the value of the easement and the structures not used and useful to the Company. Staff continues to value the easement at \$12,200 based on the County appraisal provided by the Company that was conducted near the time of the purchase of the property for the purpose of acquiring Well No. 6.

Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant for the cost of Tank No. 3?

A. Staff's Engineer continues to consider Tank No. 3 as not used and useful therefore any costs have not been included in plant in service.

Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant for the cost of replacing the pump at Well No. 4?

A. Staff included the cost of replacing the pump of \$9,449 at Well No. 4 as well as the post-test year retirement of the replaced pump of \$4,680.

Rate Base Adjustment No. 3 – Unsupported Plant treated as CIAC, Amortization of CIAC and Amortization of CIAC Based on Composite Rates Adjustment

Q. Did Staff review Granite Mountain's rebuttal testimony concerning unsupported plant treated as CIAC and Amortization of CIAC?

A. Yes.

1 **Q. What was the Company's main concern?**

2 A. The Company raised concerns regarding Staff's recommendation to remove 10 percent of the
3 \$96,432 cost of plant in service from rate base, due to the Company not being able to provide
4 detailed invoices or copies of cancelled checks related to these plant additions.

5
6 **Q. Did Staff make changes to its initial Rate Base Adjustment No. 3 – Unsupported**
7 **Plant treated as CIAC and the Amortization of CIAC recommendation?**

8 A. Yes.

9
10 **Q. Please explain Staff's changes to Rate Base Adjustment No. 3 – Unsupported Plant**
11 **treated as CIAC?**

12 A. Staff corrected its previous adjustment for the amortization of the CIAC based on the
13 appropriate depreciation rates and amortization period added in 2013 as shown on
14 Surrebuttal Schedule TBH GM-7. This modification is being made in response to arguments
15 raised in the Company's rebuttal testimony.

16
17 **Q. Did Staff correct the error in its schedules for this adjustment?**

18 A. Yes. Staff corrected the adjustment for the amortization of the CIAC based on the
19 appropriate depreciation rates and amortization period as shown on Surrebuttal Schedule
20 TBH GM-7.

21
22 *Rate Base Adjustment No. 6 – Cash Working Capital Allowance*

23 **Q. Did Staff make any adjustments to its Cash Working Capital Allowance**
24 **recommendation?**

25 A. Yes. Staff's adjustment reflects Staff's calculation of the cash working capital based upon
26 Staff's corrected adjusted test year operating expenses and recommendations.

1 *Summary of Rate Base Adjustments*

2 **Q. What is Staff's current rate base recommendation?**

3 A. Staff's direct testimony recommended rate base was \$431,139 and Staff's surrebuttal
4 testimony recommended rate base is \$426,930, a decrease of \$4,209.

5
6 **VI. OPERATING INCOME**

7 **Q. What changes did Staff make to Operating Income in its surrebuttal testimony?**

8 A. Staff made changes to the following adjustments:

- 9 1. Operating Income Adjustment No. 8 – Allocations to Water Companies
10 2. Operating Income Adjustment No. 9 – Depreciation Expense
11 3. Operating Income Adjustment No. 10 – Property Tax Expense
12 4. Operating Income Adjustment No. 11 – Income Tax Expense

13
14 *Operating Income Adjustment No. 8 – Allocations to Water Companies*

15 Changes to the 4-factor allocation discussed above in the Cost Allocation section.

16 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning Allocations?**

17 A. Yes and Staff addressed the Company's concerns about the allocations in the Common Cost
18 Allocation section above. Staff also reviewed the Company's rebuttal testimony regarding
19 Mr. Levie's salary.

20
21 **Q. Does Staff's position change with regards to Mr. Levie's salary?**

22 A. No.

23
24 **Q. What percentage is Staff now recommending for allocations for Granite Mountain?**

25 A. Staff allocated 24 percent to Granite Mountain for common costs for the regulated
26 companies instead of 26.93 percent originally used in direct testimony. The change in the

1 percentage used resulted in a decrease of \$8,033 in common costs allocated to Granite
2 Mountain. The changes in the allocations are shown in Surrebuttal Schedules TBH GM-20a
3 and TBH GM-20e.

4
5 *Operating Income Adjustment No. 9 – Depreciation Expense*

6 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning Depreciation**
7 **Expense?**

8 A. Yes. The Company is concerned about the differing levels of CIAC amortization being used
9 by Staff, and the Company disagreement about Rate Base Adjustment No. 3 for Unsupported
10 Plant treated as CIAC.

11
12 **Q. Has Staff's position change regarding the differing levels of CIAC amortization**
13 **changed?**

14 A. Yes. Staff has corrected errors in CIAC being amortized and Staff continues to recommend
15 Rate Base Adjustment No. 3 for Unsupported Plant treated as CIAC. Staff has adjusted the
16 CIAC amortization as shown on Surrebuttal Schedule TBH GM-21.

17
18 *Operating Income Adjustment No. 10 – Property Tax Expense*

19 **Q. Did Staff make any adjustments to Property Tax Expense?**

20 A. Yes. Staff recommends \$4,523 for test year property tax expense, a \$529 decrease to the
21 Company's proposed amount, as shown on Surrebuttal Schedule TBH GM-22. Staff further
22 recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a
23 factor for Property Tax Expense, as shown on Schedule TBH GM-2.

Operating Income Adjustment No. 11 – Income Tax Expense

Q. Did Staff make any adjustments to Income Tax Expense?

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's revised test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Surrebuttal Schedule TBM GM-11.

VII. STAFF'S RECOMMENDED WATER RATE DESIGN

Q. Please provide a description of Staff's recommended rate design.

A. Staff recommends increases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch meter be \$35.00. Staff recommends break-over points at 3,000 and 10,000 gallons for the 5/8 x 3/4-inch meter. Staff recommends an increase to commodity rates in all three tiers. First commodity tier rate would increase by \$1.60 from \$4.40 per 1,000 gallons to \$6.00 per 1,000 gallons. Second commodity tier rate would increase by \$3.90 from \$6.60 per 1,000 gallons to \$10.00 per 1,000 gallons. Third commodity tier rate would increase by \$4.10 from \$7.90 per 1,000 gallons to \$12.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons would increase by \$18.63 from \$41.21 to \$59.84. Staff's recommended rates are shown in Surrebuttal Schedule TBH GM-26 and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown in Surrebuttal Schedule TBH GM-27.

Q. Did Staff omit proposed Service Charges by the Company in the Rate Design?

A. Yes. Staff has corrected the Company's proposed Service Charges for Meter Re-Read (If Correct) charge of \$15.00 as shown on Surrebuttal Schedule TBH GM-26.

VIII. PENALTIES

Q. Did Staff review Granite Mountain's rebuttal testimony concerning Penalties?

A. Yes. Staff continues to recommend penalties be imposed in an amount to be determined at the discretion of the Administrative Law Judge and the Commission. The Company failed to properly collect the funds due. Although the Company was previously ordered to discontinue its practice of providing free water to relatives of Mr. Levie, and the Company billed those relatives for water, the Company failed to collect the amounts charged, thereby continuing its prohibited practice.

IX. OTHER ISSUES

Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues regarding the Code of Affiliate Conduct?

A. Yes. The Company does not oppose the development of a Code of Affiliate Conduct as recommended by Staff. However under the Company's current position, it would only be adopted by the ACC-regulated affiliates.

Q. What is Staff's position about the Code of Affiliate Conduct?

A. Staff's position has not changed from its direct testimony. Staff would note that transactions between affiliates are closely scrutinized through the audit process and in the current cases a number of transactions required appropriate adjustments due to affiliate transactions between regulated and unregulated affiliates as well as family members. While the Commission may not order unregulated affiliates to abide by this Code of Affiliate Conduct, the Commission expects the Company to operate pursuant to that Code in its dealings with the unregulated affiliates. If the unregulated affiliates do not abide by the Code, additional time will be required in future rate case audits, and higher rate case expense may result so voluntary

1 compliance by the unregulated affiliates would reduce possible disallowances and lower rate
2 case expense.

3
4 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues for**
5 **the Cost Allocations and Staff's recommended reporting of Corporate Cost**
6 **Allocations?**

7 **A.** Yes. The Company's position is addressed above in the Common Cost Allocation Section.
8 The Company deems the separate reporting to be unnecessary and proposes to have this
9 reporting addressed in the Code of Affiliate Conduct. The Company states that Staff's
10 current recommendation related to this reporting requirement is not detailed enough.

11
12 **Q. What is Staff's position about the Cost Allocations and the reporting of Corporate**
13 **Cost Allocations?**

14 **A.** Staff's position is addressed above in the Cost Allocation Section. Staff would agree that the
15 reporting requirements and reporting details should be addressed in the Code of Affiliate
16 Conduct but still deems this recommendation necessary.

17
18 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning other issues for**
19 **the Affiliate Receivable and Payables?**

20 **A.** Yes. Recommendation 1: The Company's position is to accept that the Company should
21 collect all receivables from affiliates within one year of the Decision in this case. The
22 Company accepts this recommendation but does occasionally advance funds to unaffiliated
23 employees.

24

1 Recommendation 2: The Company's position is to accept that the Company should cease
2 making any further personal loans or advances with Company funds. The Company accepts
3 this recommendation but does occasionally advance funds to unaffiliated employees.
4

5 Recommendation 3: The Company's position does not accept the recommendation in its
6 entirety that the Company should pay all payables to affiliates within 24 months of the
7 Decision. However, the Company does support the recommendation with respect to
8 unregulated affiliates. The Company indicated that an issue may arise of a potentially taxable
9 dividend to Mr. Levie due to this recommendation.
10

11 Recommendation 4: The Company's position does not accept the recommendation in its
12 entirety that the Company should obtain specific authorization by the Commission for
13 indebtedness payable, including amounts appearing in affiliate payable accounts. However,
14 the Company does support the recommendation with respect to unregulated affiliates. The
15 Company indicated that an issue may arise of a potentially taxable dividend to Mr. Levie due
16 to this recommendation.
17

18 **Q. What is Staff's position about the other issues for the Affiliate Receivable and**
19 **Payables?**

20 **A.** Recommendation 1: Staff's position is that the Company should collect all receivables within
21 one year from the date of the Decision and the Company should not occasionally advance
22 funds to unaffiliated employees.
23

24 Recommendation 2: Staff's position is that the Company should cease making any further
25 personal loans or advances with Company funds and the Company should not occasionally
26 advance funds to unaffiliated employees.

1
2 Recommendation 3: Staff's position has not changed from direct testimony. The Company
3 should pay all payables to affiliates within 24 months of the Decision in this case.
4 Additionally, speculation of the potential taxable dividend to Mr. Levie is not relevant in this
5 case. Staff notes that the Company is a "for profit" entity and a taxable dividend would seem
6 appropriate.

7
8 Recommendation 4: Staff's position has not changed from direct testimony regarding
9 indebtedness. Speculation on the potential taxable dividend to Mr. Levie is not relevant in
10 this case.

11
12 **Q. Did Staff review Granite Mountain's rebuttal testimony concerning Staff's**
13 **recommendation regarding the appointment of an Interim Manager?**

14 **A. Yes. The Company is opposed to an interim manager without due process.**
15

16 **Q. What is Staff's position about the appointment of an Interim Manager?**

17 **A. Staff's position is that the Company is being provided its due process opportunities through**
18 **this rate case.**
19

20 **Q. Does this conclude your surrebuttal testimony?**

21 **A. Yes, it does.**

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-1

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | | [A] COMPANY ORIGINAL COST | [B] STAFF ORIGINAL COST |
|-------------|---|--|------------------------------------|----------------------------------|
| | | | | |
| 1 | Adjusted Rate Base - OCRB and FVRB | | \$564,606 | \$426,930 |
| 2 | Adjusted Operating Income (Loss) | | (\$8,153) | (\$6,672) |
| 3 | Current Rate of Return (L2 / L1) | | -1.44% | -1.56% |
| 4 | Required Rate of Return | | 8.031% | 8.031% |
| 5 | Required Operating Income (L4 * L1) | | \$45,346 | \$34,287 |
| 6 | Operating Income Deficiency (L5 - L2) | | \$53,499 | \$40,959 |
| 7 | Gross Revenue Conversion Factor | | 1.200411 | 1.277557 |
| 8 | Increase (Decrease) In Gross Revenue (L7 * L6) | | \$64,221 | \$52,327 |
| 9 | Adjusted Test Year Revenue | | \$117,447 | \$117,320 |
| 10 | Proposed Annual Revenue (L8 + L9) | | \$181,668 | \$169,647 |
| 11 | Required Increase/(Decrease in Revenue) (%) (L8/L9) | | 54.68% | 44.60% |

References:

Column [A]: Company Schedules A-1 Supplemental Page 1, Company's Schedule Supplemental Attachment No. 2 Page 2
Column [B]: Staff Schedules TBH GM-2, TBH GM-3, & TBH GM-15

GROSS REVENUE CONVERSION FACTOR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|--|--|------------|-------------------|-----------|
| <u>Calculation of Gross Revenue Conversion Factor:</u> | | | | |
| 1 | Revenue | 100.00% | | |
| 2 | Uncollectible Factor (Line 11) | 0.53% | | |
| 3 | Revenues (L1 - L2) | 99.47% | | |
| 4 | Combined Federal and State Income Tax and Property Tax Rate (Line 23) | 21.20% | | |
| 5 | Subtotal (L3 - L4) | 78.27% | | |
| 6 | Revenue Conversion Factor (L1 / L5) | 127.76% | | |
| <u>Calculation of Uncollectible Factor:</u> | | | | |
| 7 | Unity | 100.00% | | |
| 8 | Combined Federal and State Tax Rate (Line 17) | 20.10% | | |
| 9 | One Minus Combined Income Tax Rate (L7 - L8) | 79.90% | | |
| 10 | Uncollectible Rate | 0.66% | | |
| 11 | Uncollectible Factor (L9 * L10) | 0.53% | | |
| <u>Calculation of Effective Tax Rate:</u> | | | | |
| 12 | Operating Income Before Taxes (Arizona Taxable Income) | 100.00% | | |
| 13 | Arizona State Income Tax Rate | 6.00% | | |
| 14 | Federal Taxable Income (L12 - L13) | 94.00% | | |
| 15 | Applicable Federal Income Tax Rate (Line 53) | 15.00% | | |
| 16 | Effective Federal Income Tax Rate (L14 * L15) | 14.10% | | |
| 17 | Combined Federal and State Income Tax Rate (L13 + L16) | | 20.10% | |
| <u>Calculation of Effective Property Tax Factor:</u> | | | | |
| 18 | Unity | 100.00% | | |
| 19 | Combined Federal and State Income Tax Rate (L17) | 20.10% | | |
| 20 | One Minus Combined Income Tax Rate (L18 - L19) | 79.90% | | |
| 21 | Property Tax Factor | 1.38% | | |
| 22 | Effective Property Tax Factor (L20 * L21) | | 1.10% | |
| 23 | Combined Federal and State Income Tax and Property Tax Rate (L17 + L22) | | | 21.20% |
| 24 | Required Operating Income | \$34,287 | | |
| 25 | Adjusted Test Year Operating Income (Loss) | (6,672) | | |
| 26 | Required Increase in Operating Income (L24 - L25) | | \$40,959 | |
| 27 | Income Taxes on Recommended Revenue (Col. [C], L52) | \$7,252 | | |
| 28 | Income Taxes on Test Year Revenue (Col. [A], L52) | (3,052) | | |
| 29 | Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | 10,304 | |
| 30 | Recommended Revenue Requirement | \$169,647 | | |
| 31 | Uncollectible Rate (Line 10) | 0.66% | | |
| 32 | Uncollectible Expense on Recommended Revenue (L30 * L31) | \$1,115 | | |
| 33 | Adjusted Test Year Uncollectible Expense | \$772 | | |
| 34 | Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33) | | 343 | |
| 35 | Property Tax with Recommended Revenue | \$5,243 | | |
| 36 | Property Tax on Test Year Revenue | 4,523 | | |
| 37 | Increase in Property Tax Due to Increase in Revenue (L35 - L36) | | 721 | |
| 38 | Total Required Increase in Revenue (L26 + L29 + L34 + L37) | | \$52,326 | |
| <u>Calculation of Income Tax:</u> | | | | |
| 39 | Revenue | Test Year | Staff Recommended | |
| 40 | Operating Expenses Excluding Income Taxes | \$117,320 | \$52,327 | \$169,647 |
| 41 | Synchronized Interest (L56) | 127,044 | 1,064 | 128,108 |
| 42 | Arizona Taxable Income (L39 - L40 - L41) | 5,460 | | 5,460 |
| 43 | Arizona State Income Tax Rate | (\$15,184) | | \$36,079 |
| 44 | Arizona Income Tax (L42 * L43) | 6.00% | | 6.00% |
| 45 | Federal Taxable Income (L42 - L44) | (\$911) | | \$2,165 |
| 46 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (\$14,273) | | \$33,914 |
| 47 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | (2,141) | | 5,087 |
| 48 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | | 0 |
| 49 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | | 0 |
| 50 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | | 0 |
| 51 | Total Federal Income Tax | 0 | | 0 |
| 52 | Combined Federal and State Income Tax (L44 + L51) | (2,141) | | 5,087 |
| | | (\$3,052) | | \$7,252 |
| 53 | Applicable Federal Income Tax Rate (Col. [C], L51 - Col. [A], L51) / [Col. [C], L45 - Col. [A], L45] | | | 15.0000% |
| <u>Calculation of Interest Synchronization:</u> | | | | |
| 54 | Rate Base | \$426,930 | | |
| 55 | Weighted Average Cost of Debt | 1.279% | | |
| 56 | Synchronized Interest (L45 * L46) | \$5,460 | | |

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | ADJ NO. | [C] STAFF AS ADJUSTED |
|----------|---|-------------------------|--------------------------|---------|--------------------------|
| 1 | Plant in Service | \$1,095,441 | (\$124,712) | 1, 2 | \$970,728 |
| 2 | Less: Accumulated Depreciation | 532,491 | 5,552 | 5 | 538,043 |
| 3 | Net Plant in Service | \$562,950 | (\$130,264) | | \$432,685 |
| | <u>LESS:</u> | | | | |
| 4 | Advances in Aid of Construction (ALAC) | \$8,256 | (\$2,235) | 4 | \$6,022 |
| 5 | Service Line and Meter Advances | \$0 | \$0 | | \$0 |
| 6 | Contributions in Aid of Construction (CLAC) | \$0 | \$9,643 | 3 | \$9,643 |
| 7 | Less: Accumulated Amortization | 0 | 309 | 3 | 309 |
| 8 | Net CLAC | \$0 | \$9,334 | | \$9,334 |
| 9 | Total Advances and Contributions | \$8,256 | \$7,099 | | \$15,355 |
| 10 | Customer Deposits | \$750 | \$0 | | \$750 |
| 11 | Accumulated Deferred Income Taxes | \$0 | \$0 | | \$0 |
| | <u>ADD: Working Capital</u> | | | | |
| 12 | Cash Working Capital Allowance | 10,662 | (313) | 6 | 10,349 |
| 13 | Total Rate Base | \$564,606 | (\$137,676) | | \$426,930 |

References:

Column [A], Company Schedule Attachment No. 1 Supplemental, Page 1
Column [B]: Schedule TBH GM-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

| LINE NO. | ACCT NO. | PLANT IN SERVICE | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] |
|----------|----------|--|--|----------------------------------|--|---|--|--------------------------------------|---------------------------------------|-------------------|
| | | | Company as Adjusted with Post-Test Plant | Adj.No.1 Post-Test Year Plant | Adj.No.2 Reclass Plant to Appropriate Classifications | Adj.No.3 Unsupported Plant Treated as CIAC | Adj.No.4 AIAC not paid during Test Year | Adj.No.5 Accumulated Depreciation | Adj.No.6 Working Capital Allowance | STAFF AS ADJUSTED |
| | | | | | | | | | | |
| 1 | 301 | Organization Cost | \$110 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$110 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 303 | Land and Land Rights | 0 | 14,700 | 0 | 0 | 0 | 0 | 0 | 14,700 |
| 4 | 304 | Structures and Improvements | 21,608 | 9,605 | 36,913 | 0 | 0 | 0 | 0 | 68,126 |
| 5 | 307 | Wells and Springs ¹ | 113,472 | (53,065) | 539 | 0 | 0 | 0 | 0 | 60,946 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | 310 | Power Generation Equipment | 0 | 0 | 912 | 0 | 0 | 0 | 0 | 912 |
| 8 | 311 | Pumping Equipment | 105,182 | 17,637 | (912) | 0 | 0 | 0 | 0 | 121,906 |
| 9 | 320 | Water Treatment Equipment | 1,661 | 0 | (1,661) | 0 | 0 | 0 | 0 | 0 |
| 10 | 320.1 | Water Treatment Plants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 416 | 5,669 | 1,661 | 0 | 0 | 0 | 0 | 7,745 |
| 12 | 330 | Distribution Reservoirs and Standpipes | 7,775 | 0 | (7,775) | 0 | 0 | 0 | 0 | 0 |
| 13 | 330.1 | Storage Tanks ² | 250,705 | (144,000) | (36,288) | 0 | 0 | 0 | 0 | 70,417 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 0 | 0 | 0 | 0 | 0 | 55,213 |
| 15 | 331 | Transmission and Distribution Mains ³ | 445,165 | 4,869 | 0 | 0 | 0 | 0 | 0 | 450,034 |
| 16 | 333 | Services | 55,853 | 81 | 0 | 0 | 0 | 0 | 0 | 55,934 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 0 | 0 | 0 | 0 | 0 | 6,652 |
| 18 | 335 | Hydrants | 8,774 | 0 | 0 | 0 | 0 | 0 | 0 | 8,774 |
| 19 | 336 | Backflow Prevention Devices | 1,027 | 402 | 0 | 0 | 0 | 0 | 0 | 1,428 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 0 | 0 | 0 | 0 | 0 | 4,850 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 0 | 0 | 0 | 0 | 0 | 3,500 |
| 23 | 341 | Transportation Equipment | 7,456 | 0 | 19,000 | 0 | 0 | 0 | 0 | 26,456 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 149 | 0 | (149) | 0 | 0 | 0 | 0 | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 |
| 27 | 346 | Communication Equipment | 853 | 0 | 7,150 | 0 | 0 | 0 | 0 | 8,003 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 20 |
| 30 | | Rounding | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| 31 | | Total Plant in Service | \$1,095,441 | (\$144,103) | \$19,391 | \$0 | \$0 | \$0 | \$0 | \$970,728 |
| 32 | | Less: Accumulated Depreciation | 532,491 | 0 | 0 | 0 | 0 | 5,552 | 0 | 538,043 |
| 33 | | Net Plant in Service | \$562,950 | (\$144,103) | \$19,391 | \$0 | \$0 | (\$5,552) | \$0 | \$432,685 |
| 34 | | LESS: | | | | | | | | |
| 35 | | Advances in Aid of Construction (AIAC) | \$8,256 | \$0 | \$0 | \$0 | (\$2,235) | \$0 | \$0 | \$6,022 |
| 36 | | Meter Deposits - Service Line & Meter Advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 37 | | Contributions in Aid of Construction (CIAC) | \$0 | \$0 | \$0 | \$9,643 | 0 | 0 | 0 | \$9,643 |
| 38 | | Less: Accumulated Amortization of CIAC | 0 | 0 | 0 | 309 | 0 | 0 | 0 | 309 |
| 39 | | Net CIAC | \$0 | \$0 | \$0 | \$9,334 | \$0 | \$0 | \$0 | \$9,334 |
| 40 | | Total Advances and Net Contributions | \$8,256 | \$0 | \$0 | \$9,334 | (\$2,235) | \$0 | \$0 | \$15,355 |
| 41 | | Customer Deposits | \$750 | \$0 | \$0 | \$0 | 0 | 0 | 0 | \$750 |
| 42 | | Accumulated Deferred Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 43 | | ADD: Working Capital | | | | | | | | |
| 44 | | Prepayments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 45 | | Cash Working Capital Allowance | 10,662 | 0 | 0 | 0 | 0 | 0 | (313) | 10,349 |
| 46 | | Total Rate Base | \$564,606 | (\$144,103) | \$19,391 | (\$9,334) | \$2,235 | (\$5,552) | (\$313) | \$426,930 |

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR ("PTY") PLANT

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED WITH PTY PLANT | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|--|--------------------------|--------------------------|
| 1 | Acct No. 303 - Land and Land Rights | \$0 | \$14,700 | \$14,700 |
| 2 | Acct No. 304 - Structures & Improvements | 21,608 | 9,605 | 31,213 |
| 3 | Acct No. 307 - Wells and Springs ¹ | 113,472 | (53,065) | 60,407 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | 17,637 | 122,819 |
| 5 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 5,669 | 6,085 |
| 6 | Acct No. 330.1 - Storage Tanks ² | 250,705 | (144,000) | 106,705 |
| 7 | Acct No. 331 - Transmission and Distribution Mains ³ | 445,165 | 4,869 | 450,034 |
| 8 | Acct No. 333 - Services | 55,853 | 81 | 55,934 |
| 9 | Acct No. 334 - Meters and Meter Installations | 6,652 | 0 | 6,652 |
| 10 | Acct No. 336 - Backflow Prevention Devices | 1,027 | 402 | 1,428 |
| 11 | TOTAL PLANT RECLASSIFICATIONS | \$1,000,079 | (\$144,103) | \$855,976 |
| 12 | | | | |
| 13 | | | | |
| 14 | PLANT RECLASSIFICATIONS AND DISALLOWANCES | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | DESCRIPTION | COMPANY AS FILED PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 18 | 2013 Plant Addition, Acct No. 303 - Land Survey | \$0 | \$500 | \$500 |
| 19 | 2015 Plant Addition, Acct No. 303 - Land and Land Rights for Easements/Water Rights | 0 | 14,200 | 14,200 |
| 20 | Acct No. 303 - Land and Land Rights | 0 | 14,700 | 14,700 |
| 21 | | | | |
| 22 | 2013 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 5,292 | 5,292 |
| 23 | 2013 Plant Removal (Disallowed), Acct No. 304 - Structures & Improvements | 0 | (3,500) | (3,500) |
| 24 | 2014 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 4,286 | 4,286 |
| 25 | 2015 Plant Addition, Acct No. 304 - Structures & Improvements ⁵ | 0 | 3,528 | 3,528 |
| 26 | Acct No. 304 - Structures & Improvements | 0 | 9,605 | 9,605 |
| 27 | | | | |
| 28 | 2013 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 5,634 | 5,634 |
| 29 | 2014 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 126 | 126 |
| 30 | 2015 Plant Addition, Acct No. 307 - Wells and Springs - Reclassified and Adjusted Land ^{4,5} | 75,000 | (58,825) | 16,175 |
| 31 | Acct No. 307 - Wells and Springs | 75,000 | (53,065) | 21,935 |
| 32 | | | | |
| 33 | 2014 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 17,234 | 17,234 |
| 34 | 2015 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 403 | 403 |
| 35 | Acct No. 311 - Pumping Equipment | 0 | 17,637 | 17,637 |
| 36 | | | | |
| 37 | 2014 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders ⁴ | 0 | 4,574 | 4,574 |
| 38 | 2015 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,095 | 1,095 |
| 39 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 5,669 | 5,669 |
| 40 | | | | |
| 41 | 2013 PTY Removal - Staff's Adjustment (\$144,000 included by Company) Not used and useful. | 144,000 | (144,000) | 0 |
| 42 | Acct No. 330.1 - Storage Tanks | 144,000 | (144,000) | 0 |
| 43 | | | | |
| 44 | 2013 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 30,000 | (24,700) | 5,300 |
| 45 | 2014 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 0 | 29,569 | 29,569 |
| 46 | Acct No. 331 - Transmission and Distribution Mains | 30,000 | 4,869 | 34,869 |
| 47 | | | | |
| 48 | 2014 Plant Addition, Acct No. 333 - Services | 0 | 81 | 81 |
| 49 | Acct No. 333 - Services | 0 | 81 | 81 |
| 50 | | | | |
| 51 | 2014 Plant Additions, Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 52 | Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 53 | | | | |
| 54 | 2014 Plant Addition, Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 55 | Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 56 | | | | |
| 57 | Total | \$249,000 | (\$144,103) | \$104,897 |

¹ Company included \$75,000 for PTY Plant. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for Well.

² Company proposed PTY Plant for Acct. No. 330.1 - Storage Tanks \$144,000 For Storage Tank 3.

³ Company proposed PTY Plant for Acct. No. 331 - Transmission & Distribution Mains \$30,000 from Well No. 6 to Transmission Lines.

⁴ Vendor provided Staff an Invoice (RW Turner Sons Invoice 13535) totaling \$10,085.76 yet billed the Company \$9,567.62 due to a Change Order for the Pellet Coordinator (Credit of \$518.14).

⁵ Surrebuttal Staff Adjustment to PTY Plant - Staff's Engineer has reviewed the appraisal provided by the Company and the Company's rebuttal adjustments. Staff's Engineer has determined that the costs are reasonable for Well No. 6 at \$16,000 and \$1,232 for Well House (Building 5). Staff has adjusted in 2015 the cost estimates for the Well No. 6 (Acct. 307) from \$25,000 to \$16,000 and the Well House (Acct. 304) for Well No. 6 from \$0 to \$1,232. These adjustments result in reduction of \$7,768 in the estimated costs for Well No. 6 and Well House for Well No. 6 from \$25,000 to \$17,232.

References:

Column [A]: Company Schedules B-2 and Attachment No. 1, Supplemental Page 2.

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.50

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - RECLASSIFY PLANT TO APPROPRIATE CLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|-------------------------|--------------------------|--------------------------|
| | | | | |
| 1 | Acct No. 304 - Structures & Improvements | \$21,608 | \$36,913 | \$58,520 |
| 2 | Acct No. 307 - Wells & Springs | 113,472 | 539 | 114,011 |
| 3 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | (912) | 104,270 |
| 5 | Acct No. 320 - Water Treatment Equipment | 1,661 | (1,661) | 0 |
| 6 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 1,661 | 2,077 |
| 7 | Acct No. 330 - Distr Reserv & Standpipes | 7,775 | (7,775) | 0 |
| 8 | Acct No. 330.1 - Storage Tanks | 250,705 | (36,288) | 214,417 |
| 9 | Acct No. 341 - Transportation Equipment | 7,456 | 19,000 | 26,456 |
| 10 | Acct No. 343 - Tools, Shop & Garage Equip | 149 | (149) | 0 |
| 11 | Acct No. 346 - Communication Equipment | 853 | 7,150 | 8,003 |
| 12 | Rounding | 0 | 1 | 1 |
| 13 | TOTAL PLANT RECLASSIFICATIONS | \$509,276 | \$19,391 | \$528,667 |
| 14 | | | | |
| 15 | | | | |
| 16 | PLANT RECLASSIFICATIONS | | | |
| 17 | | | | |
| 18 | | PLANT ADDITIONS | PLANT RECLASS | STAFF AS ADJUSTED |
| 19 | DESCRIPTION | | | |
| 20 | 2009 Plant Reclass, Acct No. 304 - Structures & Improvements | \$0 | \$36,913 | \$36,913 |
| 21 | Acct No. 304 - Structures & Improvements | 0 | 36,913 | 36,913 |
| 22 | | | | |
| 23 | 2013 Plant Reclass, Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 24 | Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 25 | | | | |
| 26 | 2011 Plant Reclass, Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 27 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 28 | | | | |
| 29 | 2011 Plant Reclass, Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 30 | Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 31 | | | | |
| 32 | 2009 Plant Reclass, Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 33 | Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 34 | | | | |
| 35 | 2009 Plant Reclass, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 36 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 37 | | | | |
| 38 | 2009 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,325) | (7,325) |
| 39 | 2010 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (450) | (450) |
| 40 | Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,775) | (7,775) |
| 41 | | | | |
| 42 | 2009 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (29,588) | (29,588) |
| 43 | 2010 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (6,700) | (6,700) |
| 44 | Acct No. 330.1 - Storage Tanks | 0 | (36,288) | (36,288) |
| 45 | | | | |
| 46 | 2013 Plant Addition, Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 47 | Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 48 | | | | |
| 49 | 2013 Plant Reclass, Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 50 | Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 51 | | | | |
| 52 | 2010 Plant Reclass, Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 53 | Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 54 | | | | |
| 55 | 2013 Rounding | 0 | 1 | 1 |
| 56 | Rounding | 0 | 1 | 1 |
| 57 | | | | |
| 58 | Total | \$19,000 | \$391 | \$19,391 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6
Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.3
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3: UNSUPPORTED PLANT TREATED AS CIAC

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|-------------------------|--------------------------|--------------------------|
| 1 | CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,643 | \$9,643 |
| 2 | Amort of CIAC, Unsupported Plant Treated as CIAC | 0 | 309 | 309 |
| 3 | Net CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,334 | \$9,334 |

UNSUPPORTED PLANT TREATED AS CIAC

| DESCRIPTION | Plant Selected In Sample | Unsupported Plant Costs | Staff as Adjusted |
|---|--------------------------|-------------------------|-------------------|
| 2009 Plant Addition, Acct No. 304 - Structures & Improvements | \$0 | \$33,057 | \$33,057 |
| Acct No. 304 - Structures & Improvements Subtotal | 0 | 33,057 | 33,057 |
| 2009 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 38,822 | 38,822 |
| 2010 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 14,477 | 14,477 |
| Acct No. 330.1 - Storage Tanks Subtotal | 0 | 53,299 | 53,299 |
| 2009 Plant Addition, Acct No. 331 - Transmission & Distribution Mains | 0 | 2,961 | 2,961 |
| Acct No. 331 - Transmission & Distribution Mains Subtotal | 0 | 2,961 | 2,961 |
| 2010 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 416 | 416 |
| Acct No. 320.2 - Solution Chemical Feeders Subtotal | 0 | 416 | 416 |
| 2010 Plant Addition, Acct No. 346 - Communication Equipment | 0 | 6,700 | 6,700 |
| Acct No. 346 - Communication Equipment Subtotal | 0 | 6,700 | 6,700 |
| TOTAL UNSUPPORTED PLANT | \$0 | \$96,432 | \$96,432 |
| Total | | | \$96,432 |
| | | x | 10% |
| | | | \$9,643 |

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

| Year Added | Plant Additions | Unsupported Plant | Year Transferred To CIAC | 10% Plant in Service | Depreciation Rate | Amortization of CIAC |
|--------------|---------------------------|-------------------|--------------------------|----------------------|-------------------|----------------------|
| 2009 | Structures & Improvements | \$33,057 | 2013 | 3,306 | 3.33% | \$110 |
| 2009 | Storage Tanks | 38,822 | 2013 | 3,882 | 2.22% | 86 |
| 2009 | Trans. & Distr. Mains | 2,961 | 2013 | 296 | 2.00% | 6 |
| 2010 | Solution Chemical Feeders | 416 | 2013 | 42 | 20.00% | 8 |
| 2010 | Storage Tanks | 14,477 | 2013 | 1,448 | 2.20% | 32 |
| 2010 | Communication Equip. | 6,700 | 2013 | 670 | 10.00% | 67 |
| Total | | \$96,432 | | \$9,643 | | \$309 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6

Column [B]: Testimony, TBH

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction | \$8,256 | \$0 | \$8,256 |
| 2 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers | 0 | (2,235) | (2,235) |
| 3 | Total AIAC paid in 2014 for 2013 refunds due customers | \$8,256 | (\$2,235) | \$6,022 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental Page 2

Column [B]: Testimony, TBH, Company's response to DR's GM TBH 1.19 and GM TBH 2.6.

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--------------------------|-------------------------|--------------------------|--------------------------|
| 1 | Accumulated Depreciation | \$532,491 | \$5,552 | \$ 538,043 |

References:

- Column [A]: Company's Application - Attachment No. 1 Supplemental 5.1 - 5.6
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL ALLOWANCE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--------------------------------------|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Cash Working Capital Allowance | \$10,662 | (\$313) | \$10,349 |
| 2 | | | | |
| 3 | | | | |
| 4 | Operation & Maintenance* | | | \$79,713 |
| 5 | Multiplied by | | X | 1/8 |
| 6 | | | | \$9,964 |
| 7 | | | | |
| 8 | Purchased Power & Purchased Water | | | \$9,241 |
| 9 | Multiplied by | | X | 1/24 |
| 10 | | | | \$385 |
| 11 | | | | |
| 12 | Total Cash Working Capital Allowance | | | \$10,349 |
| 13 | | | | |

* Less depreciation, taxes, purchased power and purchased water

References:

Column [A]: Company's Application Attachment No. 1 Supplemental Page 1

Column [B]: Testimony, TBH, Company Data Request Responses

Column [C] Column [A] + Column [B]

OPERATING INCOME - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

| LINE NO. | DESCRIPTION | [A] COMPANY TEST YEAR AS FILED | [B] STAFF TEST YEAR ADJUSTMENTS | ADJ NO. | [C] STAFF TEST YEAR AS ADJUSTED | [D] STAFF PROPOSED CHANGES | [E] STAFF RECOMMENDED |
|----------|---------------------------------|---|--|------------|---|-------------------------------------|-----------------------------|
| | REVENUES: | | | | | | |
| 1 | Metered Water Sales | \$114,273 | \$0 | | \$114,273 | \$52,327 | \$166,600 |
| 2 | Water Sales - Unmetered | 0 | 0 | | 0 | 0 | 0 |
| 3 | Other Operating Revenues | 3,174 | (127) | 1 | \$3,047 | 0 | 3,047 |
| 4 | Total Revenues | \$117,447 | (\$127) | | \$117,320 | \$52,327 | \$169,647 |
| | EXPENSES: | | | | | | |
| 7 | Salaries and Wages | \$38,942 | (\$389) | 8 | \$38,553 | \$0 | \$38,553 |
| 8 | Salaries and Wages - Officers | 6,000 | (896) | | 5,104 | 0 | 5,104 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 8 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 291 | 8 | 9,241 | 0 | 9,241 |
| 11 | Fuel for Power Production | 0 | 0 | | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 66 | 8 | 113 | 0 | 113 |
| 13 | Repairs and Maintenance | 4,339 | (2,048) | 2, 8 | 2,291 | 0 | 2,291 |
| 14 | Office Supplies & Expense | 8,314 | (3,164) | 3, 8 | 5,150 | 0 | 5,150 |
| 15 | Contractual Services | 11,353 | (6,406) | 4, 8 | 4,947 | 0 | 4,947 |
| 16 | Water Testing | 5,380 | (3,530) | 5, 8 | 1,850 | 0 | 1,850 |
| 17 | Rents | 0 | 2,700 | 8 | 2,700 | 0 | 2,700 |
| 18 | Transportation Expenses | 5,453 | (236) | 6, 8 | 5,217 | 0 | 5,217 |
| 19 | Insurance - General Liability | 1,292 | 645 | 8 | 1,937 | 0 | 1,937 |
| 20 | Insurance - Health and Life | 0 | 640 | 8 | 640 | 0 | 640 |
| 21 | Reg. Comm. Exp. | 321 | 0 | | 321 | 0 | 321 |
| 22 | Reg. Comm. Exp. - Rate Case | 3,333 | 6,667 | 7 | 10,000 | 0 | 10,000 |
| 23 | Miscellaneous Expense | 102 | 16 | 8 | 118 | 0 | 118 |
| 24 | Bad Debt Expense | 772 | 0 | | 772 | 343 | 1,115 |
| 25 | Depreciation Expense | 27,096 | 3,069 | 9 | 30,165 | 0 | 30,165 |
| 26 | Taxes Other Than Income | 0 | 0 | | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | (529) | 10 | 4,523 | 721 | 5,243 |
| 28 | Payroll Taxes | 0 | 3,403 | 8 | 3,403 | 0 | 3,403 |
| 29 | Income Taxes | (1,147) | (1,905) | 11 | (3,052) | 10,304 | 7,252 |
| 30 | Rounding | 1 | 0 | | 1 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | (\$1,608) | | \$123,992 | \$11,368 | \$135,360 |
| 33 | Operating Income (Loss) | (\$8,153) | \$1,481 | | (\$6,672) | \$40,959 | \$34,287 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Schedule TBH GM-16
Column [C]: Column [A] + Column [B]
Column [D]: Schedules TBH GM-1 and TBH GM-2
Column [E]: Column [C] + Column [D]

| SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR | | | | | | | | | | | | | | |
|---|-------------------------------|----------------------|---|---|---|--|---|---|---|---|--|---|---|-----------------------|
| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] ADJ NO. 1 Unauthorized Surcharge - Other Revenue Ref. Sch TBH GM-13 | [C] ADJ NO. 2 Repairs and Maintenance Ref. Sch TBH GM-14 | [D] ADJ NO. 3 Office Supplies Ref. Sch TBH GM-15 | [E] ADJ NO. 4 Contractual Services Ref. Sch TBH GM-16 | [F] ADJ NO. 5 Water Testing Ref. Sch TBH GM-17 | [G] ADJ NO. 6 Transportation Ref. Sch TBH GM-18 | [H] ADJ NO. 7 Rate Case Expense Ref. Sch TBH GM-19 | [I] ADJ NO. 8 Allocations to Water Companies Ref. Sch TBH GM-20 | [J] ADJ NO. 9 Depreciation Expense Ref. Sch TBH GM-21 | [K] ADJ NO. 10 Property Taxes Ref. Sch TBH GM-22 | [L] ADJ NO. 11 Income Tax Expense Ref. Sch TBH GM-23 | [M] STAFF ADJUSTED |
| 1 | REVENUES: | | | | | | | | | | | | | |
| 2 | Metered Water Sales | \$114,273 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$114,273 |
| 3 | Water Sales - Unmetered | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Other Operating Revenues | 3,174 | (127) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,047 |
| 5 | Total Revenues | \$117,447 | (\$127) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$117,320 |
| 6 | OPERATING EXPENSES: | | | | | | | | | | | | | |
| 7 | Salaries and Wages | \$38,942 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$389) | \$0 | \$0 | \$0 | \$38,553 |
| 8 | Salaries and Wages - Officers | 6,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (895) | 0 | 0 | 0 | 5,104 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 291 | 0 | 0 | 0 | 9,241 |
| 11 | Fuel for Power Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 66 | 0 | 0 | 0 | 113 |
| 13 | Repairs and Maintenance | 4,339 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (257) | 0 | 0 | 0 | 2,291 |
| 14 | Office Supplies & Expense | 8,314 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,438) | 0 | 0 | 0 | 5,150 |
| 15 | Contractual Services | 11,353 | 0 | 0 | (1,727) | (7,531) | (3,530) | 0 | 0 | 1,125 | 0 | 0 | 0 | 4,947 |
| 16 | Water Testing | 5,380 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,700 |
| 17 | Rents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,700 | 0 | 0 | 0 | 1,850 |
| 18 | Transportation Expenses | 5,453 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 664 | 0 | 0 | 0 | 5,217 |
| 19 | Insurance - General Liability | 1,292 | 0 | 0 | 0 | 0 | 0 | (900) | 0 | 645 | 0 | 0 | 0 | 1,937 |
| 20 | Insurance - Health and Life | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 640 | 0 | 0 | 0 | 640 |
| 21 | Reg. Comm. Exp. | 321 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 321 |
| 22 | Reg. Comm. Exp. - Rate Case | 3,333 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 10,000 |
| 23 | Miscellaneous Expenses | 102 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 118 |
| 24 | Bad Debt Expense | 772 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 772 |
| 25 | Depreciation Expense | 27,096 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,069 | 0 | 0 | 30,165 |
| 26 | Taxes Other Than Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 27 | Property Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (529) | 0 | 4,523 |
| 28 | Payroll Taxes | 5,052 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,403 |
| 29 | Income Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,403 | 0 | 0 | 0 | (3,052) |
| 30 | Rounding | (1,147) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,905) | 0 |
| 31 | Total Operating Expenses | \$125,600 | \$0 | (\$1,792) | (\$1,727) | (\$7,531) | (\$3,530) | (\$900) | \$6,667 | \$6,570 | \$3,069 | (\$529) | 1 | \$123,992 |
| 32 | Operating Income (Loss) | (\$8,153) | (\$127) | \$1,792 | \$1,727 | \$7,531 | \$3,530 | \$900 | (\$6,667) | (\$6,570) | (\$3,069) | \$529 | \$1,905 | (\$6,672) |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-13

OPERATING INCOME ADJUSTMENT NO. 1 - UNAUTHORIZED SURCHARGE - OTHER REVENUE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---------------------------|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Other Revenue - Surcharge | \$3,174 | (\$127) | \$3,047 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2: REPAIRS AND MAINTENANCE

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|----------------------------|-----------------------------|-----------------------------|
| | | | | |
| 1 | Repairs and Maintenance | \$4,339 | (\$1,792) | \$2,547 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | Repairs & Maintenance | | | |
| 6 | To reclass cost of culvert from expenses to PTY Plant | | | |
| 7 | Payment for materials for culvert at Short Spur for new well | | \$3,292 | |
| 8 | Monies for half of the culvert for new well at Short Spur | | (1,500) | |
| 9 | Total reclass to CWIP | | | (\$1,792) |
| 10 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-15

OPERATING INCOME ADJUSTMENT NO. 3 - OFFICE SUPPLIES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Office Supplies | \$8,314 | (\$1,727) | \$6,587 |
| 2 | | | | |
| 3 | Office Supplies | | | |
| 4 | Disallowed Expenses for Mr. Levie's Office Phone for Prop. Mgmt. | | (\$1,727) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-16

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|---|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Contractual Services | \$11,353 | (\$7,531) | \$3,822 |
| 2 | | | | |
| 3 | | | | |
| 4 | Contractual Services | | | |
| 5 | Engineering Expenses - Reclass to CWIP | (\$3,500) | | |
| 6 | New well testing on Short Spur - Reclass to CWIP | (3,045) | | |
| 7 | Contact Labor for rate case preparation - Reclass to Rate Case Expenses | (345) | | |
| 8 | Ariccor Water Solutions - Reclass to Rate Case Expenses | (641) | | |
| 9 | Total Contractual Services Reclassification | | (\$7,531) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-17

OPERATING INCOME ADJUSTMENT NO. 5 - WATER TESTING

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Water Testing | \$5,380 | (\$3,530) | \$1,850 |
| 2 | | | | |
| 3 | Reclassification of Water Testing Expenses | | | |
| 4 | Well No. 6 ADEQ Expenses - Reclass to CWIP | | (\$2,500) | |
| 5 | Storage Tank #3 ADEQ Expenses - Reclass to CWIP | | (1,800) | |
| 6 | Total Water Testing Reclassification | | | (\$4,300) |
| 7 | | | | |
| 8 | Water Testing Costs Per Table 4 - Engineering Report | | | |
| 9 | Actual Water Testing Costs | | \$1,850 | |
| 10 | Total Normalized Water Testing Costs | | | \$1,850 |
| 11 | | | | |
| 12 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, TBH, Engineering Report in Exhibit 1
Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-18

OPERATING INCOME ADJUSTMENT NO. 6 - TRANSPORTATION

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Transportation Expenses | \$5,453 | (\$900) | \$4,553 |
| 2 | | | | |
| 3 | Transportation | | | |
| 4 | Disallowed Expenses for Gas Reimbursements | (\$900) | (\$900) | |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-19

OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS (Col C - Col A) | [C] STAFF AS ADJUSTED |
|----------|-------------------|----------------------------|--|--------------------------|
| | | | | |
| 1 | Rate Case Expense | \$3,333 | \$6,667 | \$10,000 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | Company | Rate Case Expense as filed | Staff Adjusted Rate Case Expense | Normalize over 3 years |
| 8 | Chino Meadows | \$40,000 | \$45,000 | \$5,000 |
| 9 | Granite Mountain | 10,000 | 30,000 | 20,000 |
| 10 | Total | \$50,000 | \$75,000 | \$25,000 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, Data Request Responses TBH ? Supplemental & TBH?

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) STAFF ADJUSTMENTS | (C) STAFF AS ADJUSTED |
|----------|-------------------------------|-------------------------|--------------------------|--------------------------|
| 1 | Salaries and Wages | \$38,942 | (\$389) | \$38,553 |
| 2 | Salaries and Wages - Officers | 6,000 | (896) | 5,104 |
| 3 | Purchased Power | 8,950 | 291 | 9,241 |
| 4 | Chemicals | 47 | 66 | 113 |
| 5 | Repairs and Maintenance | 4,339 | (257) | 4,082 |
| 6 | Office Supplies & Expense | 8,314 | (1,438) | 6,876 |
| 7 | Rents | 0 | 2,700 | 2,700 |
| 8 | Contractual Services | 11,353 | 1,125 | 12,478 |
| 9 | Transportation Expenses | 24,401 | 664 | 25,065 |
| 10 | Insurance - General Liability | 5,453 | 645 | 6,098 |
| 11 | Insurance - Health and Life | 1,292 | 640 | 1,932 |
| 12 | Miscellaneous Expenses | 102 | 16 | 118 |
| 13 | Payroll Taxes | 0 | 3,403 | 3,403 |
| 14 | Total | \$84,792 | \$6,570 | \$91,362 |

| LINE NO. | DESCRIPTION | (D) Chino Meadows as filed | (E) Original amount allocated to Granite Mountain | (F) Reclassification | (G) Staff Adjustments | (H) Normalize | (I) Chino Meadows Direct | (J) Cost to be Allocated | (K) Portion allocated to unregulated Companies | (L) Amount allocated to unregulated Companies | (M) Amount allocated to regulated Companies | (N) Granite Mountain Adjusted 4-factor allocation | (O) Amount to be allocated to Granite Mountain | (P) Granite Mountain Direct |
|----------|-------------------------------|-------------------------------|--|-------------------------|--------------------------|------------------|-----------------------------|-----------------------------|---|--|--|--|---|--------------------------------|
| 19 | Salaries and Wages | \$179,963 | \$0 | (\$15,718) | (\$17,444) | \$13,834 | \$0 | \$160,638 | 0% | \$0 | \$160,638 | 24.00% | \$38,553 | \$0 |
| 20 | Salaries and Wages - Officers | 31,700 | 6,000 | 0 | (16,434) | 0 | 0 | 21,266 | 0% | 0 | 21,266 | 24.00% | \$5,104 | 0 |
| 21 | Purchased Power | 247 | 247 | 0 | (46) | 0 | 22,110 | 2,493 | 10% | 249 | 2,244 | 24.00% | \$538 | 8,702 |
| 22 | Chemicals | 425 | 47 | 0 | 0 | 0 | 0 | 472 | 0% | 0 | 472 | 24.00% | 113 | 0 |
| 23 | Repairs and Maintenance | 8,899 | 633 | 1,281 | (124) | (208) | 2,159 | 8,530 | 0% | 0 | 8,530 | 24.00% | 2,047 | 2,035 |
| 24 | Office Supplies & Expense | 30,594 | 1,988 | (12,000) | (2,804) | (208) | 0 | 17,569 | 10% | 1,757 | 15,812 | 24.00% | 3,795 | 3,081 |
| 25 | Rents | 0 | 3,000 | 12,000 | (2,804) | 0 | 3,489 | 15,000 | 25% | 3,750 | 11,250 | 24.00% | 2,700 | 0 |
| 26 | Contractual Services | 11,457 | 490 | (500) | (1,232) | 0 | 0 | 6,726 | 0% | 0 | 6,726 | 24.00% | 1,614 | 10,863 |
| 27 | Transportation Expenses | 24,752 | 2,736 | 1,817 | (7,380) | (180) | 0 | 21,739 | 0% | 0 | 21,739 | 24.00% | 5,217 | 900 |
| 28 | Insurance - General Liability | 5,964 | 996 | 0 | (1,058) | 594 | 0 | 9,496 | 15% | 1,424 | 8,072 | 24.00% | 1,937 | 0 |
| 29 | Insurance - Health and Life | 2,667 | 296 | 0 | (2,301) | 0 | 0 | 2,963 | 10% | 296 | 2,667 | 24.00% | 640 | 0 |
| 30 | Miscellaneous Expenses | 8,848 | 245 | (3,397) | (1,539) | 0 | 2,903 | 490 | 0% | 0 | 490 | 24.00% | 118 | 0 |
| 31 | Payroll Taxes | 0 | 0 | 15,718 | 0 | 0 | 0 | 14,179 | 0% | 0 | 14,179 | 24.00% | 3,403 | 0 |
| 32 | Total | \$332,672 | \$16,678 | (\$799) | (\$30,362) | \$14,034 | \$30,661 | \$281,562 | | \$7,477 | \$274,085 | | \$65,780 | \$25,582 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Column [C] - Column [A]
Column [C]: Col [B] + Col [Q]
Column [D]: Chino Meadows Schedule TBH CM-14
Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
Column [F]: Schedule TBH CM-19c
Column [G]: Schedule TBH CM-19c
Column [H]: Schedule TBH CM-19d
Column [I]: Chino Meadows Schedule TBH CM-20a, Co. [I]
Column [J]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H] - Col [I]
Column [K]: Testimony, TBH
Column [L]: Col [J] + Col [K]
Column [M]: Col [J] - Col [L]
Column [N]: Schedule TBH GM-20e
Column [P]: Col [M] + Col [N]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS RECLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$15,718) | \$164,247 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 1,281 | 10,180 |
| 6 | Office Supplies & Expense | 30,594 | (12,000) | 18,594 |
| 7 | Rents | 0 | 12,000 | 12,000 |
| 8 | Contractual Services | 11,457 | (500) | 10,957 |
| 9 | Transportation Expenses | 24,752 | 1,817 | 26,569 |
| 10 | Insurance - General Liability | 8,964 | 0 | 8,964 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (3,397) | 5,451 |
| 13 | Payroll Taxes | 0 | 15,718 | 15,718 |
| 14 | | | | |
| 15 | Salaries and Wages | | | |
| 16 | Payroll taxes included as salaries and wages | (\$15,718) | (\$15,718) | |
| 17 | | | | |
| 18 | Repairs and Maintenance | | | |
| 19 | To reclass expense to plant | (\$539) | | |
| 20 | Amount originally booked to Granite Mountain to be included in the cost pool | 1,820 | \$1,281 | |
| 21 | | | | |
| 22 | Office Supplies & Expense | | | |
| 23 | Rent - Misclassified as Office Supplies | (\$12,000) | (\$12,000) | |
| 24 | | | | |
| 25 | Rents | | | |
| 26 | Rent - Misclassified as Office Supplies | \$12,000 | \$12,000 | |
| 27 | | | | |
| 28 | Contractual Services | | | |
| 29 | Survey for Granite Mountain Well No. 6 Site | (\$500) | (\$500) | |
| 30 | | | | |
| 31 | Transportation Expenses | | | |
| 32 | Amount originally booked to Granite Mountain to be included in the cost pool | \$1,817 | \$1,817 | |
| 33 | | | | |
| 34 | Miscellaneous Expenses | | | |
| 35 | To correct for bad debt expenses included in miscellaneous expenses | (\$3,000) | | |
| 36 | Adjustment - Less Security Deposits Corrections | (554) | | |
| 37 | To adjust for bad debts recovered and collection fees included in miscellaneous expenses | 157 | (\$3,397) | |
| 38 | | | | |
| 39 | Payroll Taxes | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS DISALLOWED

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$17,444) | \$162,521 |
| 2 | Salaries and Wages - Officers | 31,700 | (16,434) | 15,266 |
| 3 | Purchased Power | 24,401 | (46) | 24,355 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | (124) | 8,775 |
| 6 | Office Supplies & Expense | 30,594 | (2,804) | 27,790 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | (1,232) | 10,225 |
| 9 | Transportation Expenses | 24,752 | (7,380) | 17,372 |
| 10 | Insurance - General Liability | 8,964 | (1,058) | 7,906 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (2,301) | 6,547 |
| 13 | Payroll Taxes | 0 | (1,539) | (1,539) |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Non-regulated salaries and wages | (\$17,444) | (\$17,444) | |
| 18 | | | | |
| 19 | Salaries and Wages - Officers | | | |
| 20 | Pay adjusted to reflect actual time worked | (\$11,761) | | |
| 21 | Duties assigned to office manager | (4,673) | (16,434) | |
| 22 | | | | |
| 23 | Purchased Power | | | |
| 24 | To adjust for late fees | (\$46) | (\$46) | |
| 25 | | | | |
| 26 | Repairs and Maintenance | | | |
| 27 | To adjust for personal expense | (\$124) | (\$124) | |
| 28 | | | | |
| 29 | Office Supplies & Expense | | | |
| 30 | Interest and Late Fees | (\$44) | | |
| 31 | Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan | (1,888) | | |
| 32 | Meals | (218) | | |
| 33 | Miscellaneous Personal Expenses | (524) | | |
| 34 | 2010 Expense | (130) | (\$2,804) | |
| 35 | | | | |
| 36 | Contractual Services | | | |
| 37 | Legal Fees for Fire | (\$1,232) | (\$1,232) | |
| 38 | | | | |
| 39 | Transportation Expenses | | | |
| 40 | Gas Reimbursement \$100 per month - Company no longer providing | (\$800) | | |
| 41 | Personal Use Purchases - Tires | (2,497) | | |
| 42 | Out of State Gasoline Purchase | (2,229) | | |
| 43 | Bulk Delivery of Gasoline to Paul's Home (530 gallons) | (1,854) | (\$7,380) | |
| 44 | | | | |
| 45 | Insurance - General Liability | | | |
| 46 | Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co. | (\$1,058) | (\$1,058) | |
| 47 | | | | |
| 48 | Miscellaneous Expenses | | | |
| 49 | Gifts | (\$1,559) | | |
| 50 | Meals | (683) | | |
| 51 | Donations | (60) | (\$2,301) | |
| 52 | | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS NORMALIZATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | \$13,834 | \$193,799 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 0 | 8,899 |
| 6 | Office Supplies & Expense | 30,594 | (208) | 30,386 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | 0 | 11,457 |
| 9 | Transportation Expenses | 24,752 | (186) | 24,566 |
| 10 | Insurance - General Liability | 8,964 | 594 | 9,558 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | 0 | 8,848 |
| 13 | Payroll Taxes | 0 | 0 | 0 |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Normalize salaries and benefits | \$13,834 | \$13,834 | |
| 18 | | | | |
| 19 | Office Supplies & Expense | | | |
| 20 | Normalize Carbonite over 3 years | (\$94) | | |
| 21 | Normalize GoDaddy 5 year contract | (114) | (\$208) | |
| 22 | | | | |
| 23 | Transportation Expenses | | | |
| 24 | Normalize Vehicle Registration for 2 years | (\$186) | (\$186) | |
| 25 | | | | |
| 26 | Insurance - General Liability | | | |
| 27 | Normalize Insurance Policy adjustment for refunds | \$594 | \$594 | |

OPERATING INCOME ADJUSTMENT NO. 8 - 4-FACTOR ALLOCATION CALCULATION

| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] |
|----------|------------------|----------------|------------------|----------------------|------------------------|----------------------|------------------|-----------------------------|------------------|----------------|---------------------------|
| Line No. | Company | Customer count | Customer count % | Net Plant in service | Net Plant in service % | Total Annual Revenue | Annual Revenue % | Total Annual Gallons Pumped | Gallons Pumped % | 4-factor % | Staff Adjusted 4-factor % |
| 1 | Antelope Lakes | 2 | 0.20% | \$62,347 | 11.34% | \$613 | 0.13% | 95 | 0.13% | 2.95% | 1.00% |
| 2 | Chino Meadows | 899 | 87.96% | 173,351 | 31.54% | 357,364 | 75.17% | 64,140 | 85.81% | 70.12% | 75.00% |
| 3 | Granite Mountain | 121 | 11.84% | 313,950 | 57.12% | 117,447 | 24.70% | 10,510 | 14.06% | 26.93% | 24.00% |
| 4 | Total | 1,022 | | \$549,648 | | \$475,424 | | 74,745 | | 100.00% | 100.00% |

References:

Column [A]: The Customer counts for Chino Meadows and Granite Mountain the applications; and for Antelope Lakes, the 2013 Annual Report, p. 12 as of 12/31/2013

Column [B]: Column [A] / Line 4.

Column [C]: The Net Plant in service information for Chino Meadows and Granite Mountain are from the applications & Schedule TBH-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of

Column [D]: Column [C] / Line 4.

Column [E]: The Total Annual Revenue information for Chino Meadows and Granite Mountain are from the applications; the information for Antelope Lakes, is from the 2013 Annual Report, p. 8 as of 12/31/2013

Column [F]: Column [E] / Line 4.

Column [G]: The Total Annual Gallons Pumped information for Chino Meadows and Granite Mountain is from the application; the information for Antelope Lakes, is from the 2013 Annual Report on Revised Balance Sheet, p. 12 as of 12/31/2013

Column [H]: Column [G] / Line 4.

Column [I]: Average of Columns [B, D, F, and H].

Column [J]: Staff Adjusted 4-factor percentage. Discussed in Surrebuttal Testimony.

| OPERATING INCOME ADJUSTMENT NO. 8: ALLOCATIONS-SALARIES & WAGES CALCULATION | | | | | | | | | |
|---|------------------------------|--|---|--|----------------------------|--|---|--|-------------------------------------|
| LINE NO. | [A] 2014 Current Salaries | [B] 2014 Current or Estimated Hourly Rate | [C] 2014 Current or Estimated Salary and Wages | [D] 2014 Current or Estimated Payroll Taxes | [E] Non-Regulated Hours | [F] 2014 Non-Regulated Salary and Wages | [G] 2014 Non-Regulated Payroll Taxes | [H] Staff Adjusted Salaries and Wages | [I] Staff Adjusted Payroll Taxes |
| 1 | Barney ² | \$26.61 | \$55,356 | \$4,670 | 10% | \$5,536 | \$467 | \$49,821 | \$4,203 |
| 2 | Nelson | 14.50 | 30,160 | 2,714 | 5% | 1,508 | 136 | 28,652 | 2,579 |
| 3 | Lopez | 17.50 | 36,400 | 3,276 | | | | 36,400 | 3,276 |
| 4 | Feichter | 14.50 | 30,160 | 2,714 | | | | 30,160 | 2,714 |
| 5 | Magnussen | 12.50 | 26,000 | 2,340 | 40% | 10,400 | 936 | 15,600 | 1,404 |
| 6 | Rounding | 0.00 | 5 | 3 | | | | | |
| 7 | Total | | \$178,082 | \$15,718 | | \$17,444 | \$1,539 | \$160,638 | \$14,179 |
| 8 | | | | | | | | | |
| 9 | | | | | | | | | |
| 10 | | | | | | | | | |

¹ Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-2.12h, CM TBH-2.5 and GM TBH-2.5g.
² Per TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.

References:

- Column [A]: Company Schedule C-2
- Column [B]: Testimony, TBH
- Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

| LINE NO. | DESCRIPTION | [A] Officer Salary Hours worked per month |
|----------|--|---|
| 1 | Supervision and management of company personnel | 12 |
| 2 | Oversight of company operations | 6 |
| 3 | Provide strategic direction | 6 |
| 4 | Review company financial data including payables, receivable, revenue and expenses | 12 |
| 5 | Provide legal representation for Company | 8 |
| 6 | Review payroll and sign checks | 4 |
| 7 | Review and authorize all vendor payments | 4 |
| 8 | Acquire regulate and oversee company loans and long-term debts | 8 |
| 9 | Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available | 20 |
| 10 | Develop and review company processes and procedures to ensure regulatory compliance | 8 |
| 11 | Review & advise Company on manuals such as employee handbook & emergency response manual | 1 |
| 12 | Total Monthly Hours | 89 |
| 13 | | |
| 14 | Less hours out of town (33 percent of the total monthly hours) | 29.37 |
| 15 | Adjusted Hours | 59.63 |
| 16 | | |
| 17 | Adjusted Hours * \$36.25 ¹ * 12 months | \$25,939 |
| 18 | Less Additional Increase for Operations Manager from 2013 to 2014 ² | (4,673) |
| 19 | Adjusted Officers Salary | \$21,266 |
| 20 | ¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain = | |
| 21 | \$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25 | |
| 22 | ² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673. | |

References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

OPERATING INCOME ADJUSTMENT NO. 9 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

| LINE NO. | ACCT NO. | DESCRIPTION | [A] PLANT In SERVICE Per Staff | [B] Non-Depreciable or Fully Depreciated PLANT | [C] DEPRECIABLE PLANT (Col A - Col B) | [D] DEPRECIATION RATE | [E] DEPRECIATION EXPENSE (Col C x Col D) |
|----------|----------|---|--------------------------------------|---|--|-----------------------------|---|
| 1 | 301 | Organization Cost | \$110 | \$110 | \$0 | 0.00% | \$0 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0.00% | 0 |
| 3 | 303 | Land and Land Rights | 14,700 | 14,700 | 0 | 0.00% | 0 |
| 4 | 304 | Structures and Improvements | 68,126 | 0 | 68,126 | 3.33% | 2,269 |
| 5 | 307 | Wells and Springs | 60,946 | 0 | 60,946 | 3.33% | 2,029 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 2.00% | 0 |
| 7 | 310 | Power Generation Equipment | 912 | 0 | 912 | 5.00% | 46 |
| 8 | 311 | Pumping Equipment | 121,906 | 108,950 | 12,956 | 12.50% | 1,620 |
| 9 | 320 | Water Treatment Equipment | | | | | |
| 10 | 320.1 | Water Treatment Plants | 0 | 0 | 0 | 3.33% | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 7,745 | 2,077 | 5,668 | 20.00% | 1,134 |
| 12 | 330 | Distribution Reservoirs and Standpipes | | | | | |
| 13 | 330.1 | Storage Tanks | 70,417 | 0 | 70,417 | 2.22% | 1,563 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 55,213 | 5.00% | 2,761 |
| 15 | 331 | Transmission and Distribution Mains | 450,034 | 0 | 450,034 | 2.00% | 9,001 |
| 16 | 333 | Services | 55,934 | 0 | 55,934 | 3.33% | 1,863 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 6,652 | 8.33% | 554 |
| 18 | 335 | Hydrants | 8,774 | 0 | 8,774 | 2.00% | 175 |
| 19 | 336 | Backflow Prevention Devices | 1,428 | 0 | 1,428 | 6.67% | 95 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 4,850 | 6.67% | 323 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 6.67% | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 3,500 | 20.00% | 700 |
| 23 | 341 | Transportation Equipment | 26,456 | 0 | 26,456 | 20.00% | 5,291 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 5,000 | 5.00% | 250 |
| 27 | 346 | Communication Equipment | 8,003 | 0 | 8,003 | 10.00% | 800 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 20 | 0 | 0.00% | 0 |
| 30 | | Rounding | 1 | 0 | 1 | 0.00% | 0 |
| 31 | | Total Plant | \$970,728 | \$125,857 | \$844,871 | | \$30,474 |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 37 | | | | | | | |
| 38 | | | | | | | |
| 39 | | | | | | | |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | | | | | | |
| 43 | | | | | | | |

| Amortization of Plant based on Appropriate Depreciation Rates: | | | |
|--|------------------|--------------------|----------------------|
| Description | Plant in Service | Depreciation Rates | Amortization of CIAC |
| Structures & Improvements | 3,306 | 3.33% | \$110 |
| Storage Tanks | 3,882 | 2.22% | 86 |
| Trans. & Distr. Mains | 296 | 2.00% | 6 |
| Solution Chemical Feeders | 42 | 20.00% | 8 |
| Storage Tanks | 1,448 | 2.20% | 32 |
| Communication Equip. | 670 | 10.00% | 67 |
| Totals | \$9,643 | | \$309 |

| | |
|--|----------|
| Amortization of CIAC (Depreciation Rates Identified): | \$309 |
| CIAC Plant in Service (Depreciation Rates Identified): | \$9,643 |
| Depreciation Expense Before Amortization of CIAC: | \$30,474 |
| Less Amortization of CIAC: | 309 |
| Test Year Depreciation Expense - Staff: | \$30,165 |
| Depreciation Expense - Company: | 27,096 |
| Staff's Total Adjustment: | \$3,069 |

References:

Column [A]: Schedule TBH GM-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-22

OPERATING INCOME ADJUSTMENT NO 10 - PROPERTY TAX EXPENSE

| LINE NO. | Property Tax Calculation | [A] STAFF AS ADJUSTED | [B] STAFF RECOMMENDED |
|----------|--|-----------------------------|-----------------------------|
| 1 | Staff Adjusted Test Year Revenues | \$117,320 | \$117,320 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | \$234,640 | \$234,640 |
| 4 | Staff Recommended Revenue, Per Schedule TBH-1 | 117,320 | \$169,647 |
| 5 | Subtotal (Line 4 + Line 5) | \$351,960 | \$404,287 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | \$117,320 | \$134,762 |
| 8 | Department of Revenue Mutilplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | \$234,640 | \$269,525 |
| 10 | Plus: 10% of CWIP - Schedule TBH-24 | 5,451 | 5,451 |
| 11 | Less: Net Book Value of Licensed Vehicles - Schedule TBH-19 Line 23 | \$21,165 | \$21,165 |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | \$218,926 | \$253,811 |
| 13 | Assessment Ratio | 18.50% | 18.50% |
| 14 | Assessment Value (Line 12 * Line 13) | \$40,501 | \$46,955 |
| 15 | Composite Property Tax Rate | 11.17% | 11.17% |
| 16 | Staff Test Year Adjusted Property Tax (Line 14 * Line 15) | \$4,523 | \$0 |
| 17 | Company Proposed Property Tax | \$5,052 | |
| 18 | Staff Test Year Adjustment (Line 16-Line 17) | (\$529) | |
| 19 | Property Tax - Staff Recommended Revenue (Line 14 * Line 15) | | \$5,243 |
| 20 | Staff Test Year Adjusted Property Tax Expense (Line 16) | | 4,523 |
| 21 | Increase in Property Tax Expense Due to Increase in Revenue Requirement | | 721 |
| 22 | Increase to Property Tax Expense | | \$721 |
| 23 | Increase in Revenue Requirement | | \$52,327 |
| 24 | Increase to Property Tax per Dollar Increase in Revenue (Line19/Line 20) | | 1.38% |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Surrebuttal Schedule TBH GM-23

OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES

| LINE NO. | DESCRIPTION | (A) | (B) |
|----------|--|------------|-----------|
| | <i>Calculation of Income Tax:</i> | | |
| 1 | Revenue | Test Year | |
| 2 | Less: Operating Expenses - Excluding Income Taxes | \$117,320 | |
| 3 | Less: Synchronized Interest (L17) | 127,044 | |
| 4 | Arizona Taxable Income (L1 - L2 - L3) | 5,460 | |
| 5 | Arizona State Income Tax Rate | (\$15,184) | |
| 6 | Arizona Income Tax (L4 x L5) | 6.000% | |
| 7 | Federal Taxable Income (L4 - L6) | | (\$911) |
| 8 | Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15% | (\$14,273) | |
| 9 | Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25% | (2,141) | |
| 10 | Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34% | 0 | |
| 11 | Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39% | 0 | |
| 12 | Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34% | 0 | |
| 13 | Total Federal Income Tax | 0 | |
| 14 | Combined Federal and State Income Tax (L6 + L13) | | (\$2,141) |
| 15 | | | (\$3,052) |
| 16 | | | |
| 17 | <i>Calculation of Interest Synchronization:</i> | | |
| 18 | Rate Base | \$426,930 | |
| 19 | Weighted Average Cost of Debt | 1.279% | |
| 20 | Synchronized Interest (L16 x L17) | \$5,460 | |
| 21 | | | |
| 22 | | | |
| 23 | Income Tax - Per Staff | (\$3,052) | |
| 24 | Income Tax - Per Company | (1,147) | |
| 25 | Staff Adjustment | (\$1,905) | |

PROPERTY TAX ADJUSTMENT NO. 1 - ADJUSTMENTS TO CONSTRUCTION WORK IN PROGRESS AND ADDITIONS FOR STORAGE TANK NO. 3

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------|-------------------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Company Proposed Construction Work in Progress | \$8,591 | \$45,918 | \$54,509 |
| 2 | | | | |
| 3 | Construction Work in Progress | | | |
| | Well No. 6 - Disallowed Prep work and installing 2 pipes. back hoe Bobcat and gradework at Short Spur. No Support Provided by Company, Work performed by Daniel Levie, Check Cancelled and offset against his balance due on his water accounts outside of test year. Per DR TBH 3.10. | | (\$3,500) | |
| 4 | Reclass from Water Testing - Storage Tank #3 ADEQ Expenses | | 1,800 | |
| 5 | Removal of expenses that were reclassified to GMWC Well #6 | | (89) | |
| 6 | Removal of Expenses from Well #5 Shane Dr. | | (3,198) | |
| 7 | Building Permits Yavapai County 5/22/14 | | 465 | |
| 8 | Building Permits Yavapai County 6/18/14 | | 415 | |
| 9 | | | | |
| 10 | Reclass from Well No. 6 - Storage Tank #3 ADEQ Extension Expenses 2/9/2015 | | 400 | |
| | Draw No. 1 Dave Larson 9/12/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 11 | Draw No. 2 Dave Larson 9/19/2014 - Payment included in Invoice 32477.1 to Chapman Electrical 2/12/2015 as Misc. Pymt. Total \$12,600 for Draw 1 & 2. | | 6,300 | |
| 12 | Chapman Electrical 1/20/2015 Invoice 32477 | | 34,225 | |
| 13 | Chapman Electrical 4/17/2015 Invoice 32477.1 | | 2,800 | \$45,918 |
| 14 | | | | |
| 15 | | | | |
| 16 | Total CWIP for Property Tax Calculation on TBH-22 Line 10 | | X 10% | \$ 5,451 |

References:

Column [A]: Company Balance Sheet Acct. No. 105
Column [B]: Testimony, TBH
Column [C]: Column [A] + Column [B]

RELATED PARTY TRANSACTIONS - COMPANY FAILED TO APPROPRIATELY COLLECT REVENUE PURSUANT TO DECISION 71869 (UNCOLLECTED RELATED PARTY TRANSACTIONS IN TEST YEAR)

| [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] | [P] |
|----------------|----------------------------------|-----|------------------|----------------|------------|----------|-----------|------------|--------------------------|-----------------------|------------|-----------------------------|--|--------------------|--|
| Water Acct No. | Name on Account | | Balance 12/31/12 | Account Status | Water | Taxes | Surcharge | Penalty | Adjustments ¹ | Payments ² | Total | Staff Adjusted Revenue 2013 | Staff Adjusted Balance Due 12/31/13 ³ | Due Range | # of Bills Not Appropriately Collected |
| 80.002.01 | Levie, Daniel P. ² | | \$3,569.03 | Active | \$2,873.68 | \$208.53 | \$3.03 | \$811.41 | (\$1,564.42) | \$0.00 | \$2,332.23 | \$3,688.12 | \$7,265.68 | 1.1.13 to 12.31.13 | 24 |
| 81.002.01 | Levie, Daniel P. ³ | | 4,381.13 | Active | 2,386.77 | 157.77 | 2.30 | 831.54 | 0.00 | 0.00 | 3,378.38 | 3,220.61 | \$7,759.51 | 1.1.13 to 12.31.13 | 29 |
| 80.001.02 | Granite Mtn Stables ⁴ | | 428.15 | Active | 2,009.92 | 135.93 | 1.99 | 111.29 | 0.00 | (1,530.00) | 729.13 | 593.20 | \$1,157.28 | 1.1.13 to 12.31.13 | 40 |
| 80.012.00 | Levie, Daniel P. ⁵ | | 244.38 | Active | 842.40 | 48.94 | 0.72 | 50.44 | 0.00 | 0.00 | 942.50 | 893.56 | \$1,186.88 | 1.1.13 to 12.31.13 | 29 |
| Totals | | | \$8,422.69 | | \$8,112.77 | \$551.17 | \$8.04 | \$1,804.68 | (\$1,564.42) | \$1,530.00 | \$7,382.24 | \$8,395.49 | \$17,369.35 | | 122 |

¹ Staff did not include any adjustments in the Adjusted Revenues.

² Per Decision 71869 Page 23 Line 16, Identified as Daniel's Home Property. Adjustment for Water Leak and Late Fees GM TBH 2.9, Balance paid by Mr. Paul Levie \$5,701.26. However, DT GM TBH 3.10 states Check for \$2,201.26 and offset for \$3,500 for check to Mr. Daniel Levie for work on Culvert for \$3,500 Check 5403 (voided) in GM TBH 2.15. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 12/2011 to 11/2013.

³ Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

⁴ Per Decision 71869 Page 23 Line 17, Identified as Stables Property. Sporadic Payments made in 5 payments through Test year. Not properly collected on since 9/2010.

⁵ Payment made by Mr. Paul Levie per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

References:

Column [A]: Company C-1

Column [B]: Testimony, GM TBH 1.42, GM TBH 2.15, GM TBH 2.9, GM TBH 3.10, GM TBH 3.11

Column [C]: Column [A] + Column [B]

| RATE DESIGN | | | | | |
|---|---------------|--|------------------------|--|-------------------------|
| Monthly Usage Charge | Present Rates | | Company Proposed Rates | | Staff Recommended Rates |
| <u>Meter Size (All Classes):</u> | | | | | |
| 5/8 x 3/4 Inch | \$ 25.00 | | \$ 38.50 | | \$ 35.00 |
| 3/4 Inch | 37.50 | | 57.75 | | 52.50 |
| 1 Inch | 62.50 | | 96.25 | | 87.50 |
| 1 1/2 Inch | 125.00 | | 192.50 | | 175.00 |
| 2 Inch | 200.00 | | 308.00 | | 280.00 |
| 3 Inch | 400.00 | | 616.00 | | 560.00 |
| 4 Inch | 625.00 | | 962.50 | | 875.00 |
| 6 Inch | 1,250.00 | | 1,925.00 | | 1,750.00 |
| <u>Commodity Charge - Per 1,000 Gallons</u> | | | | | |
| <u>5/8" x 3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.00 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>5/8" x 3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 3,000 gallons | N/A | | N/A | | 6.00 |
| 3,001 to 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |
| <u>3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 10,000 gallons | N/A | | N/A | | 10.00 |
| Over 10,000 gallons | N/A | | N/A | | 12.00 |

RATE DESIGN CONT.

Surreburtal Schedule TBH GM-26

Page 2 of 3

| | | | | | |
|--|------|--|-------|--|-------|
| <u>1" Meter (All Classes)</u> | | | | | |
| First 10,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 10,000 gallons | 7.90 | | 12.00 | | N/A |
| First 15,000 gallons | N/A | | N/A | | 10.00 |
| Over 15,000 gallons | N/A | | N/A | | 12.00 |
| <u>1 1/2" Meter (All Classes)</u> | | | | | |
| First 20,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 20,000 gallons | 7.90 | | 12.00 | | N/A |
| First 30,000 gallons | N/A | | N/A | | 10.00 |
| Over 30,000 gallons | N/A | | N/A | | 12.00 |
| <u>2" Meter (All Classes)</u> | | | | | |
| First 40,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 40,000 gallons | 7.90 | | 12.00 | | N/A |
| First 50,000 gallons | N/A | | N/A | | 10.00 |
| Over 50,000 gallons | N/A | | N/A | | 12.00 |
| <u>3" Meter (All Classes)</u> | | | | | |
| First 144,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 144,000 gallons | 7.90 | | 12.00 | | N/A |
| First 100,000 gallons | N/A | | N/A | | 10.00 |
| Over 100,000 gallons | N/A | | N/A | | 12.00 |
| <u>4" Meter (All Classes)</u> | | | | | |
| First 225,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 225,000 gallons | 7.90 | | 12.00 | | N/A |
| First 150,000 gallons | N/A | | N/A | | 10.00 |
| Over 150,000 gallons | N/A | | N/A | | 12.00 |
| <u>6" Meter (All Classes)</u> | | | | | |
| First 450,000 gallons | 6.60 | | 10.00 | | N/A |
| Over 450,000 gallons | 7.90 | | 12.00 | | N/A |
| First 300,000 gallons | N/A | | N/A | | 10.00 |
| Over 300,000 gallons | N/A | | N/A | | 12.00 |
| <u>Construction/Standpipe</u> | | | | | |
| All Gallons | 7.90 | | 12.00 | | 12.00 |
| <u>Hydrant Meter by Meter Size</u> <u>(Not Individually Assigned)</u> | | | | | |
| All Usage, Per 1,000 Gallons | 7.90 | | 12.00 | | 12.00 |

RATE DESIGN CONT.

Surrebuttal Schedule TBH GM-26

Page 3 of 3

Other Service Charges

| | | | | | |
|--|----------------|--|----------------|--|----------------|
| Establishment | \$ 25.00 | | \$ 25.00 | | \$ 25.00 |
| Establishment (After Hours) | 35.00 | | N/A | | N/A |
| Reestablishment (within 12 months) | * | | * | | * |
| Reconnection (Delinquent) | 35.00 | | 35.00 | | 35.00 |
| Reconnection (Delinquent) - After Hours | 45.00 | | N/A | | N/A |
| Meter Test (If Correct) | 35.00 | | 35.00 | | 35.00 |
| Meter Re-Read (If Correct) | 15.00 | | 15.00 | | 15.00 |
| Deposit | ** | | ** | | ** |
| Deposit Interest | ** | | ** | | ** |
| NSF Check | 20.00 | | 20.00 | | 20.00 |
| Deferred Payment (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Late Payment Fee (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Moving Customer Meter (Customer Request) | At Cost | | At Cost | | At Cost |
| After Hour Service Charge (at customers request) | N/A | | 25.00 | | 25.00 |

* Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

** Per A.A.C. R14-2-403(B).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

| Service Size | Total Present Charge | Proposed Service Line Charge | Proposed Meter Installation Charge | Total Proposed Charge | Recommended Service Line Charge | Recommended Meter Installation Charge | Total Recommended Charge |
|----------------|----------------------|------------------------------|------------------------------------|-----------------------|---------------------------------|---------------------------------------|--------------------------|
| 5/8 x 3/4 Inch | \$ 500.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 |
| 3/4 Inch | 575.00 | 450.00 | 250.00 | 700.00 | 450.00 | 250.00 | 700.00 |
| 1 Inch | 650.00 | 575.00 | 300.00 | 875.00 | 575.00 | 300.00 | 875.00 |
| 1 1/2 Inch | 716.00 | 675.00 | 500.00 | 1,175.00 | 675.00 | 500.00 | 1,175.00 |
| 2 Inch | 1,572.00 | 1,000.00 | 1,500.00 | 2,500.00 | 1,000.00 | 1,500.00 | 2,500.00 |
| 3 Inch | 2,400.00 | 1,300.00 | 2,000.00 | 3,300.00 | 1,300.00 | 2,000.00 | 3,300.00 |
| 4 Inch | 3,516.00 | 1,800.00 | 3,500.00 | 5,300.00 | 1,800.00 | 3,500.00 | 5,300.00 |
| 6 Inch | 6,916.00 | 2,800.00 | 6,000.00 | 8,800.00 | 2,800.00 | 6,000.00 | 8,800.00 |
| Over 6 Inch | N/A | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost |

Granite Mountain Water Company Inc.
Docket No. W-02467A-14-0230
Test Year Ended: December 31, 2013

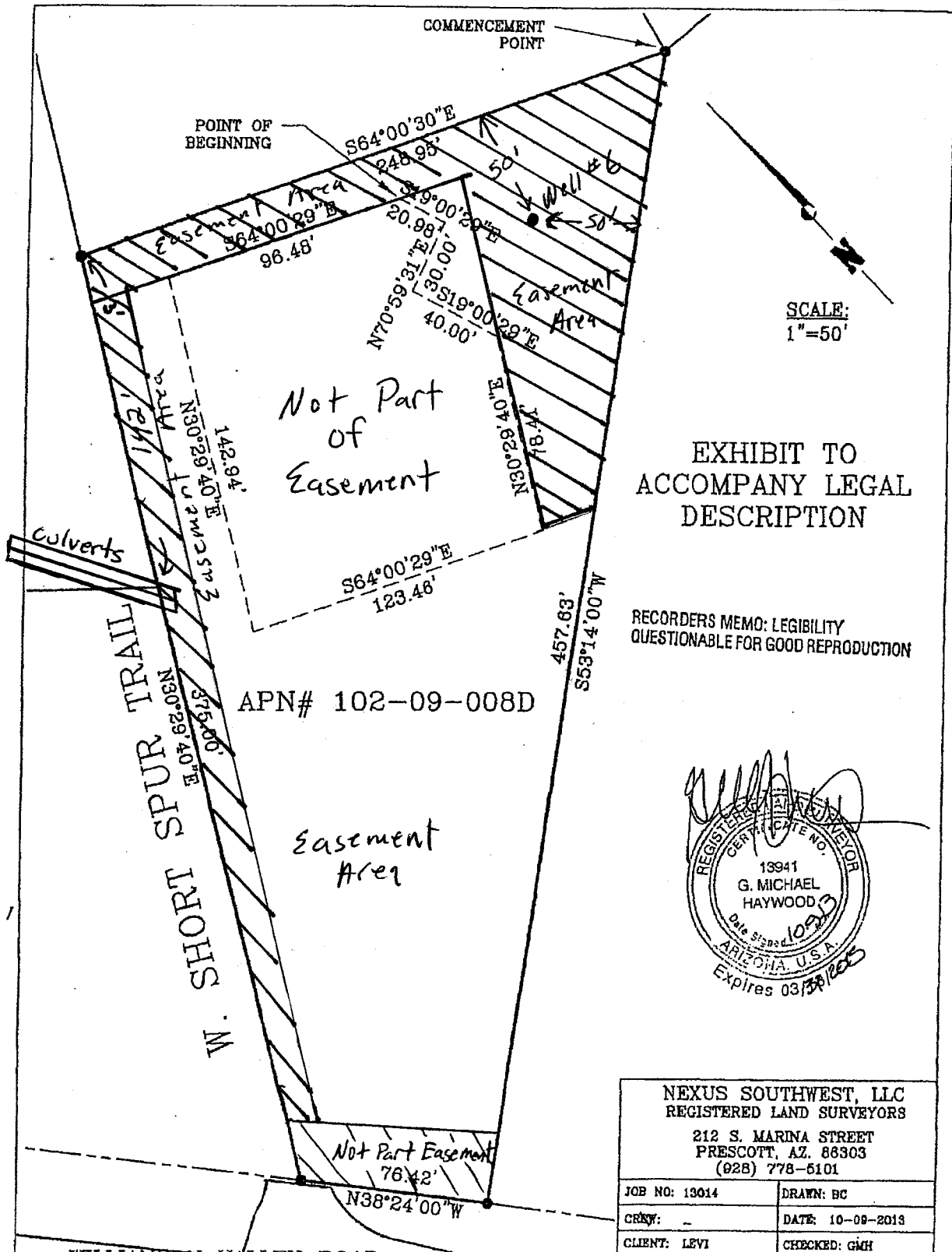
Surrebuttal Schedule TBH GM-27

| Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter | | | | | | |
|--|--------------------|-------------|--------------------|----------------|--------------------|------------------|
| Company Proposed | Gallons | | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 6,411 | | \$ 58.51 | \$ 93.01 | \$ 34.50 | 58.96% |
| Median Usage | 3,684 | | 41.21 | 65.74 | \$ 24.53 | 59.53% |
| Staff Recommended | | | | | | |
| Average Usage | 6,411 | | \$ 58.51 | \$ 87.11 | \$ 28.60 | 48.87% |
| Median Usage | 3,684 | | 41.21 | 59.84 | \$ 18.63 | 45.21% |
| Present & Proposed Rates (Without Taxes) General Service 5/8 x 3/4-Inch Meter | | | | | | |
| | Present | | Company Proposed | % | Staff Recommended | % |
| 5/8" x 3/4" | | 5/8" x 3/4" | | 5/8" x 3/4" | | |
| | Minimum Charge | \$ 25.00 | Minimum Charge | \$ 38.50 | Minimum Charge | \$ 35.00 |
| | 1st Tier Rate | 4.40 | 1st Tier Rate | 6.80 | 1st Tier Rate | 6.00 |
| | 1st Tier Breakover | 4,000 | 1st Tier Breakover | 3,000 | 1st Tier Breakover | 3,000 |
| | 2nd Tier Rate | 6.60 | 2nd Tier Rate | 10.00 | 2nd Tier Rate | 10.00 |
| | 2nd Tier Breakover | 10,000 | 2nd Tier Breakover | 8,000 | 2nd Tier Breakover | 10,000 |
| | 3rd Tier Rate | 7.90 | 3rd Tier Rate | 12.00 | 3rd Tier Rate | 12.00 |
| Gallons | Rates | | Rates | | Rates | |
| Consumption | Rates | | Increase | | Increase | |
| - | \$ 25.00 | | \$ 38.50 | 54.00% | \$ 35.00 | 40.00% |
| 1,000 | 29.40 | | 45.30 | 54.08% | 41.00 | 39.46% |
| 2,000 | 33.80 | | 52.10 | 54.14% | 47.00 | 39.05% |
| 3,000 | 38.20 | | 58.90 | 54.19% | 53.00 | 38.74% |
| 4,000 | 42.60 | | 68.90 | 61.74% | 63.00 | 47.89% |
| 5,000 | 49.20 | | 78.90 | 60.37% | 73.00 | 48.37% |
| 6,000 | 55.80 | | 88.90 | 59.32% | 83.00 | 48.75% |
| 7,000 | 62.40 | | 98.90 | 58.49% | 93.00 | 49.04% |
| 8,000 | 69.00 | | 108.90 | 57.83% | 103.00 | 49.28% |
| 9,000 | 75.60 | | 120.90 | 59.92% | 113.00 | 49.47% |
| 10,000 | 82.20 | | 132.90 | 61.68% | 123.00 | 49.64% |
| 11,000 | 90.10 | | 144.90 | 60.82% | 135.00 | 49.83% |
| 12,000 | 98.00 | | 156.90 | 60.10% | 147.00 | 50.00% |
| 13,000 | 105.90 | | 168.90 | 59.49% | 159.00 | 50.14% |
| 14,000 | 113.80 | | 180.90 | 58.96% | 171.00 | 50.26% |
| 15,000 | 121.70 | | 192.90 | 58.50% | 183.00 | 50.37% |
| 16,000 | 129.60 | | 204.90 | 58.10% | 195.00 | 50.46% |
| 17,000 | 137.50 | | 216.90 | 57.75% | 207.00 | 50.55% |
| 18,000 | 145.40 | | 228.90 | 57.43% | 219.00 | 50.62% |
| 19,000 | 153.30 | | 240.90 | 57.14% | 231.00 | 50.68% |
| 20,000 | 161.20 | | 252.90 | 56.89% | 243.00 | 50.74% |
| 25,000 | 200.70 | | 312.90 | 55.90% | 303.00 | 50.97% |
| 30,000 | 240.20 | | 372.90 | 55.25% | 363.00 | 51.12% |
| 35,000 | 279.70 | | 432.90 | 54.77% | 423.00 | 51.23% |
| 40,000 | 319.20 | | 492.90 | 54.42% | 483.00 | 51.32% |
| 45,000 | 358.70 | | 552.90 | 54.14% | 543.00 | 51.38% |
| 50,000 | 398.20 | | 612.90 | 53.92% | 603.00 | 51.43% |
| 75,000 | 595.70 | | 912.90 | 53.25% | 903.00 | 51.59% |
| 100,000 | 793.20 | | 1,212.90 | 52.91% | 1,203.00 | 51.66% |

EXHIBIT

S-5

ADMITTED



AN APPRAISAL REPORT
CONTAINING THE RESULTS OF
AN APPRAISAL OF AN
UNRESTRICTED EASEMENT
LOCATED AT
2475 W. SHORT SPUR TRAIL
YAVAPAI COUNTY, ARIZONA

Huck Appraisal Office
724 Gail Gardner Way
Prescott, Arizona 86305



HUCK APPRAISAL OFFICE

Robert C. Huck, MAI
724 Gail Gardner Way • Prescott, Arizona 86305
Phone (928) 778-7171 • Fax (928) 778-7272
Email: hanainc@cableone.net

April 14, 2015

Granite Mountain Water Co.
c/o Paul Levie
P.O. Box 350
Chino Valley, Arizona 86323-0350

Re: An appraisal report containing the results of land and improvements located at
2475 W. Short Spur Trail in Yavapai County, Arizona.

Dear Mr. Levie:

In accordance with our agreement as outlined in our engagement letter dated March 2, 2015, I hereby transmit the attached appraisal report which contains the result of my appraisal of the subject property. The report sets forth my value conclusion, along with supporting data and reasoning which form the basis of my opinion. This letter is, by reference, made a part of the accompanying report.

The purpose of the appraisal is to provide an opinion of the retrospective market value of an unrestricted easement, 'As Is'. The client for this appraisal assignment is Granite Mountain Water Co. c/o Paul Levie. The intended use of the appraisal is for documentation for the corporation commission. The intended user of the appraisal is Paul Levie and/or his designees to assist in their decisions regarding the property. No other parties are authorized to rely upon this report without the express written consent of the appraiser.

The results of the appraisal are reported in the attached appraisal report, which contains 36 pages. This Appraisal Report is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

April 14, 2015
Mr. Levie:
Page Two

This report is also intended to have been prepared in accordance with:

- All requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as provided by the Appraisal Foundation;
- The Code of Professional Ethics, the Standards of Professional Appraisal Practice, and any additional requirements of the Appraisal Institute, of which I am a member.

By reason of my investigation and having given careful consideration to the factors which affect real estate value, I have concluded the following retrospective market value of the unrestricted easement, 'As Is', as of May 29, 2014:

**EIGHTY THOUSAND DOLLARS
(\$80,000)**

The conclusions of this appraisal are subject to the Standard Assumptions and Limiting Conditions contained in the Addenda of this report. In addition, the conclusions are also made in consideration of the following Extraordinary Assumptions and/or Hypothetical Conditions, as discussed in the report:

1. The appraiser notes that the date of valuation is May 29, 2014, the date the subject easement was recorded in the Yavapai County Recorder's Office. However, the date of the formal inspection of the property is April 14 2015. It is an extraordinary assumption of this appraisal that the nature of the property as of the date of valuation was substantially consistent with the nature of the property on the date of the formal inspection.

I hereby disclose that I personally inspected the subject property on April 14, 2015. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.

I hereby certify that I have no interest, present or prospective, in the subject property, and that the appraisal assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a

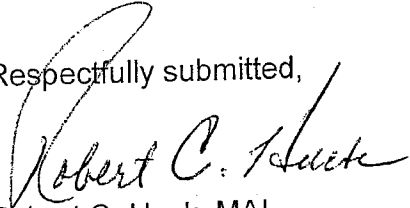
April 14, 2015

Mr. Levie:

Page Three

subsequent event directly related to the intended use of this appraisal. I further certify that to the best of my knowledge and belief, the statements and opinions contained in the appraisal are correct, subject to the limiting conditions expressed herein.

Respectfully submitted,

A handwritten signature in cursive script, reading "Robert C. Huck". The signature is written in dark ink and is positioned above the printed name and title.

Robert C. Huck, MAI
Certified General Real Estate Appraiser
Certificate No. 30123

AN APPRAISAL REPORT
CONTAINING THE RESULTS OF
AN APPRAISAL OF AN
UNRESTRICTED EASEMENT
LOCATED AT
2475 W. SHORT SPUR TRAIL
YAVAPAI COUNTY, ARIZONA

PREPARED FOR

GRANITE MOUNTAIN WATER CO.
C/O PAUL LEVIE
P.O. BOX 350
CHINO VALLEY, ARIZONA 86323-0350

PREPARED BY

ROBERT C. HUCK, MAI
CERTIFIED GENERAL REAL ESTATE APPRAISER
CERTIFICATE NO. 30123

OF

HUCK APPRAISAL OFFICE
724 GAIL GARDNER WAY
PRESCOTT, ARIZONA 86305
(928) 778-7171

EFFECTIVE DATE OF VALUATION
MAY 29, 2014

DATE OF REPORT
APRIL 14, 2015

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
9. I have made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.
11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I, Robert C. Huck, have completed the continuing education program of the Appraisal Institute.

CERTIFICATION

Page Two

14. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

15. I hereby certify that I am competent to complete the appraisal assignment. The reader is referred to the appraiser's Statement of Qualifications contained in the Addenda.

16. All extraordinary assumptions, hypothetical conditions and limiting conditions imposed by the terms of the assignment or by the undersigned, affecting the analysis, opinions and conclusions contained in this report are contained herein.

17. No change of any item of the appraisal report shall be made by anyone other than the Appraiser, and if changed, the Appraiser shall have no responsibility for any such unauthorized change.

VALUE CONCLUSIONS

The subject property is an unrestricted easement across the property identified as 2475 W. Short Spur Trail, Assessor's Parcel # 102-09-008N in Yavapai County, Arizona.

The subject property is a portion of the property identified on the Yavapai County Assessor's Tax Roll as Assessor's Parcel # 102-09-008N. The legal description for the property is a Metes and Bounds described parcel in Section 30, Township 15 North, Range 2 West, of the Gila & Salt River Base & Meridian, Yavapai County, Arizona. This parcel is referred to in this appraisal as the 'larger parcel'. This parcel contains ± 1.40 acres or $\pm 61,034$ square feet. It is improved with a single family residence, several outbuildings and miscellaneous site improvements.

The subject easement is a portion of the larger parcel. It contains ± 1.024 acres or $\pm 44,594$ square feet, outbuildings and site improvements as described in this report. It does not contain a portion of the land area contained in the larger parcel or the existing single family residence on this parcel.

By reason of my investigation and having given careful consideration to the factors which affect real estate value, I have concluded the following retrospective market value of the unrestricted easement, 'As Is', as of May 29, 2014:

**EIGHTY THOUSAND DOLLARS
(\$80,000)**

CERTIFICATION

Page Three

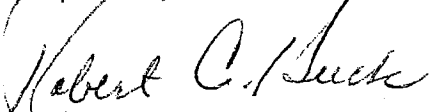
The conclusions of this appraisal are subject to the Standard Assumptions and Limiting Conditions contained in the Addenda of this report. In addition, the conclusions are also made in consideration of the following Extraordinary Assumptions and/or Hypothetical Conditions, as discussed in the report:

1. The appraiser notes that the date of valuation is May 29, 2014, the date the subject easement was recorded in the Yavapai County Recorder's Office. However, the date of the formal inspection of the property is April 14 2015. It is an extraordinary assumption of this appraisal that the nature of the property as of the date of valuation was substantially consistent with the nature of the property on the date of the formal inspection.

I hereby disclose that I personally inspected the subject property on April 14, 2015. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.

I hereby certify that I have no interest, present or prospective, in the subject property, and that the appraisal assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. I further certify that to the best of my knowledge and belief, the statements and opinions contained in the appraisal are correct, subject to the limiting conditions expressed herein.

Respectfully submitted,



Robert C. Huck, MAI
Certified General Real Estate Appraiser
Certificate No. 30123

SUMMARY OF CONCLUSIONS

PROPERTY NAME: Granite Mountain Short Spur Easement

PROPERTY LOCATION: 2475 W. Short Spur Trail, Yavapai County, Arizona

PROPERTY TYPE: Unrestricted Easement

ASSESSOR'S PARCEL #: Portion of 102-09-008N (Yavapai)

EFFECTIVE DATE OF VALUE: May 29, 2014

DATE OF REPORT: April 14, 2015

ZONING: Yavapai County R1L-35

EASEMENT: ±44,594 Square Feet or 1.024 Acres

STRUCTURES: Building #1: 702 SF
Building #2: 128 SF
Building #3: 64 SF
Building #4: 65 SF

HIGHEST AND BEST USE,

As Vacant: Single Family Residential Lot or Open Space

As Improved: Single Family Residential/Water Company Use

EXPOSURE TIME: N/A

VALUE ESTIMATE OF SUBJECT EASEMENT: \$80,000

TABLE OF CONTENTS

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|---------------------------------------|----|
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| PRESENTATION OF DATA----- | 5 |
| ANALYSIS OF DATA AND CONCLUSIONS----- | 26 |
| APPROACHES TO VALUE----- | 28 |
| SALES COMPARISON APPROACH----- | 29 |
| COST APPROACH----- | 34 |
| VALUE CONCLUSIONS----- | 36 |

ADDENDA

Subject Photos
Easement Legal Description
Zoning Ordinance
Comparable Location Map
Comparable Photos
Letter of Engagement
Certification
Standard Assumptions and Limiting Conditions
Appraiser's State Certificate
Appraiser's Qualifications

PREMISES OF THE APPRAISAL

PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to provide an opinion of the market value of the unrestricted easement which is identified as the subject property of this appraisal. The valuation premise is the 'As Is' premise.

IDENTIFICATION OF THE CLIENT

The client for this appraisal assignment is Granite Mountain Water Co. c/o Paul Levie.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal is for documentation for the corporation commission.

INTENDED USER OF THE APPRAISAL

The intended user of the appraisal is Paul Levie and/or his designees to assist in their decisions regarding the property. No other parties are authorized to rely upon this report without the express written consent of the appraiser.

DEFINITION OF MARKET VALUE

The value addressed in the appraisal of the subject property is *market value*.

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite a fair sale, the buyer and seller each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is consummation of a sale as of a specified date and passing of title from seller to buyer under conditions whereby:

- 1. Buyer and seller are typically motivated;*
- 2. Both parties are well informed or well advised, and acting in what they consider their own best interests;*
- 3. A reasonable time is allowed for exposure in the open market;*
- 4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto;*
- 5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹*

¹ Rules and Regulations, Federal Register, Vol. 55, No. 165, page 34696 and 12 CFR 34.42.

DEFINITION OF "AS IS" PREMISE

The valuation premise addressed in this appraisal is the 'As Is' premise.

"Market Value as is" on appraisal date means an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.²

DEFINITION OF EXTRAORDINARY ASSUMPTION

An extraordinary assumption is defined as:

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions.³

Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

The appraiser notes that the date of valuation is May 29, 2014, the date the subject easement was recorded in the Yavapai County Recorder's Office. However, the date of the formal inspection of the property is April 14 2015. It is an extraordinary assumption of this appraisal that the nature of the property as of the date of valuation was substantially consistent with the nature of the property on the date of the formal inspection.

DEFINITION OF HYPOTHETICAL CONDITION

A hypothetical condition is defined as:

A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.⁴

Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

² Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, "Final Rule", 12 CFR 34.42(g)

³ Uniform Standards of Professional Appraisal Practice, 2012 - 2013 Edition.

⁴ Uniform Standards of Professional Appraisal Practice, 2012 - 2013 Edition.

PROPERTY RIGHTS APPRAISED

The rights to the property being appraised are the rights associated with an *easement* which exists on the subject property. An easement is defined as:

"An interest in real property that transfers use, but not ownership, of a portion of an owner's property."⁵

As an interim step in the valuation of the impact of the subject easement, the value of the *fee simple estate* in the subject property, 'without the easement', is first estimated. The fee simple estate is defined as:

"Absolute ownership unencumbered by any other interest or estate; subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."⁶

EFFECTIVE DATE OF VALUE

The effective date of value for the property is May 29, 2014. The formal inspection of the property was made on April 14, 2015 by Robert C. Huck, MAI.

DATE OF THE REPORT

The date of the report is April 14, 2015.

⁵ The Appraisal of Real Estate, Twelfth Edition, page 71.

⁶ The Dictionary of Real Estate Appraisal, Third Edition, American Institute of Real Estate Appraisers, 1993, Page 140.

SCOPE OF THE APPRAISAL

The appraiser has personally inspected the subject property, subject neighborhood, and market area, and has gathered sufficient data to form an opinion of value for the subject property. The applicable approach to value for the subject land is the sales comparison approach which is fully processed in this appraisal. This analysis results in the valuation of the fee simple interest in the subject property. After an opinion of value of the fee simple interest in the subject land is concluded, the value of the rights associated with the easement are identified and quantified. The depreciated replacement cost of the improvements is calculated and added to the indicated value of the land contained in the easement.

The results of the appraisal are reported in this Appraisal Report. This is an Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. *Supporting documentation concerning the data, reasoning, and analyses, is retained in the appraiser's file and is available to the client during regular business hours.* The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

This report is also intended to have been prepared in accordance with:

- All requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as provided by the Appraisal Foundation;
- The Code of Professional Ethics, the Standards of Professional Appraisal Practice, and any additional requirements of the Appraisal Institute, of which I am a member.

EXTRAORDINARY ASSUMPTIONS, HYPOTHETICAL & LIMITING CONDITIONS

The conclusions of this appraisal are subject to the Standard Assumptions and Limiting Conditions contained in the Addenda of this report. In addition, the conclusions are also made in consideration of the following Extraordinary Assumptions and/or Hypothetical Conditions, as discussed in the report:

1. The appraiser notes that the date of valuation is May 29, 2014, the date the subject easement was recorded in the Yavapai County Recorder's Office. However, the date of the formal inspection of the property is April 14 2015. It is an extraordinary assumption of this appraisal that the nature of the property as of the date of valuation was substantially consistent with the nature of the property on the date of the formal inspection.

PRESENTATION OF DATA

PROPERTY IDENTIFICATION AND LEGAL DESCRIPTION

The subject property is an unrestricted easement across the property identified as 2475 W. Short Spur Trail, Assessor's Parcel # 102-09-008N in Yavapai County, Arizona.

The subject property is a portion of the property identified on the Yavapai County Assessor's Tax Roll as Assessor's Parcel # 102-09-008N. The legal description for the property is a Metes and Bounds described parcel in Section 30, Township 15 North, Range 2 West, of the Gila & Salt River Base & Meridian, Coconino County, Arizona. This parcel is referred to in this appraisal as the 'larger parcel'. This parcel contains ± 1.40 acres or $\pm 61,034$ square feet. It is improved with a single family residence, several outbuildings and miscellaneous site improvements.

The subject easement is a portion of the larger parcel. It contains ± 1.024 acres or $\pm 44,594$ square feet, several outbuildings and site improvements as described in this report. It does not contain a portion of the land area contained in the larger parcel or the existing single family residence on this parcel.

STATEMENT OF OWNERSHIP OF THE APPRAISED PROPERTY

According to data found in the office of the Yavapai County Assessor, title to the property which comprises the subject property is held in the name of:

Sandia Properties, LLC
160 Viewcrest Drive
Bountiful, UT 84010

ECONOMIC HISTORY OF THE SUBJECT PROPERTY

According to data found in the Yavapai County Assessor's office, the improvements to the subject property were constructed in 1978. According to the same source, the subject property was purchased by the current owner for \$155,000 in 12/2012.

Other than as noted above, the subject property has not sold during the three years prior to the date of valuation, nor is the appraiser aware of any other listings, offers, options, leases or negotiations involving these parcels.

AREA DESCRIPTION – PRESCOTT

The City of Prescott is located about 96 miles north of Arizona's state capitol, Phoenix. Unlike Phoenix's desert environment, Prescott is nestled in the northern slopes of the Bradshaw Mountains in north central Arizona, at an elevation of about 5,354 feet. The Bradshaw range is a part of a chain of mountains which cross Arizona from east to west across the middle of the state.

Established in 1864 as a small mining town, Prescott is one of the state's oldest communities. The town was incorporated in 1881, was the first Territorial Capitol of Arizona, and is now the county seat for Yavapai County. Prescott's relatively long and full heritage for a southwestern town is visible in its wide range of architecture and mixture of land planning. The largest inventory of restored historical buildings in Arizona exists in Prescott.

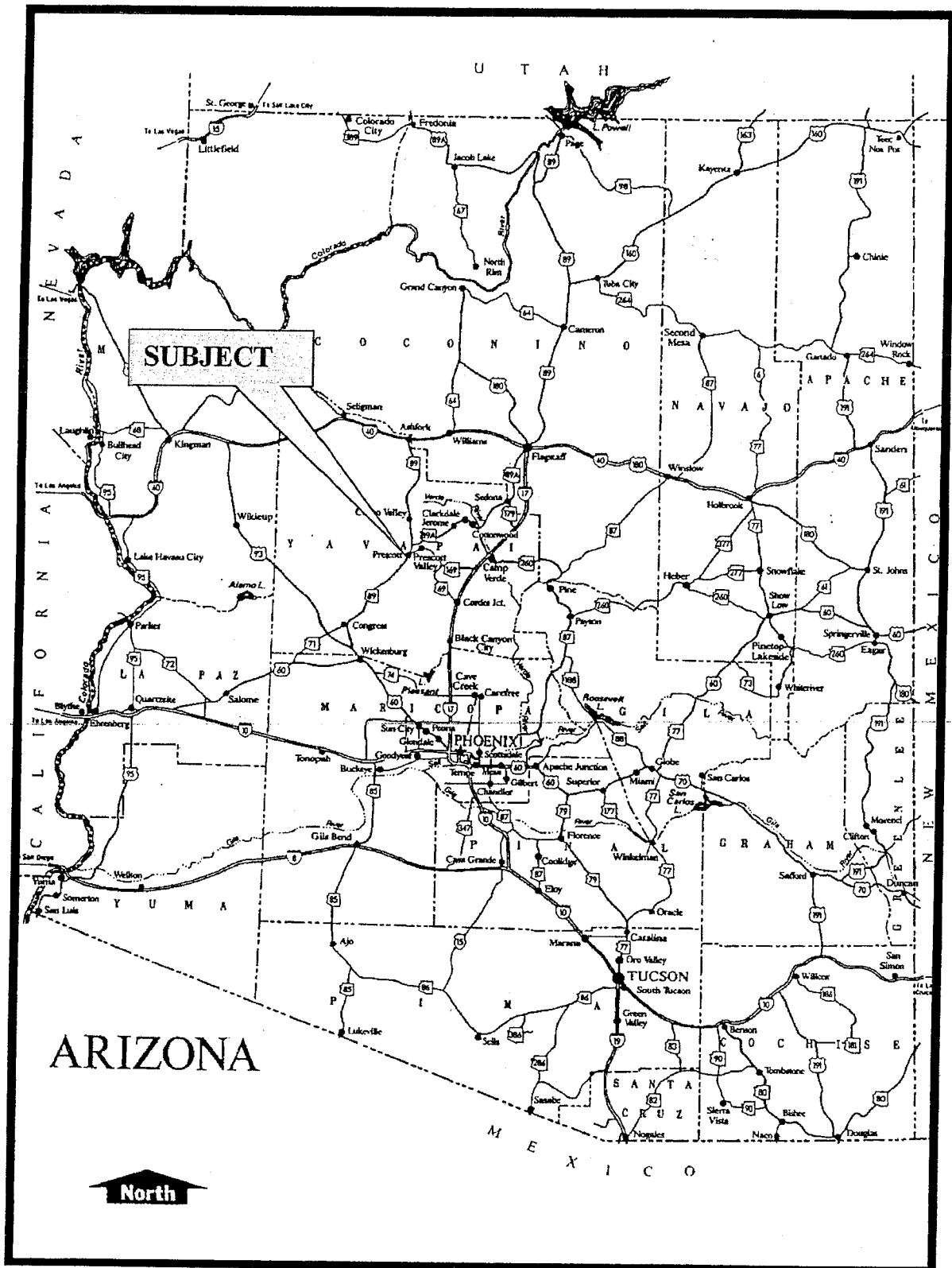
Prescott is the largest community in Yavapai County, and, along with Flagstaff, one of the two largest cities in Northern Arizona. Recent population estimates for the community are summarized in the following table.

| YEAR | POPULATION | INCR/PREVIOUS | INCR/2000 |
|------|--------------|---------------|-----------|
| 2014 | 40,520 | 1.6%/Year | 1.3%/Year |
| 2013 | 39,888 | 0.0%/Year | 1.3%/Year |
| 2012 | 39,865 | (0.0%/Year) | 1.4%/Year |
| 2011 | 39,873 | 0.1%/Year | 1.5%/Year |
| 2010 | 39,843 | (0.5%/Year) | 1.6%/Year |
| 2005 | 40,770 (EST) | 1.4%/Year | 3.7%/Year |
| 2000 | 33,938 | 2.1%/Year | N/A |
| 1995 | 30,606 | 3.0%/Year | N/A |
| 1990 | 26,455 | 1.6%/Year | N/A |
| 1985 | 24,385 | 4.0%/Year | N/A |
| 1980 | 20,055 | N/A | N/A |

In addition to the population within the Prescott city limits, a significant number of people live in the Prescott area, but outside of the incorporated area. The estimated population of the immediate Prescott area (excluding Prescott Valley, Chino Valley and Dewey/Humboldt) as furnished by demographic sources, local utility companies and Yavapai County is around 70,000.

Prescott is not only the county seat for Yavapai County, but also the trade center for many smaller outlying communities. Therefore, Prescott's economy and culture are influenced by these neighboring towns. Among these communities are Prescott Valley Chino Valley, Mayer, Dewey, Humboldt, Skull Valley, Kirkland, Yarnell, Bagdad, and Hillside. Most of these are small agricultural communities, which rely on Prescott for goods and services. The overall population of Prescott and these surrounding areas, in a radius of about 30 miles, is estimated to be around 120,000 to 130,000.

AREA MAP



Prescott has become a popular retirement community. In fact, Yavapai County's percentage of population 65 years or older is around 22% compared to a state average of $\pm 13\%$. The high percentage of retired persons has had a significant impact upon the economy, growth, and government of Prescott, and is expected to remain the case in the future. In fact, Yavapai County has become a prime area for retirement and elderly health care facilities. It was once named the #1 place in the U.S. to retire by Money magazine. Among the other accolades received by the area are:

- A December, 2014 *TripAdvisor.com* survey identified Prescott as the #3 'destination on the rise' in the U.S.
- In 2013 Marketwatch named Prescott the #5 best place in the U.S. to retire in its '10 Best Places to Retire' study.
- Listed #2 in *SmartMoney's* 'The New Best Places to Retire, 2010.
- Prescott ranked in the top 100 for 'Best small places for business' according to *Forbes.com* in 2009.
- *Business Week* magazine ranked Prescott as one of the top five 'recreational havens' in the U.S.
- Ranked the best place to live by *Money Magazine* in 2006.
- The *Milken Institute's* '2005 Best Performing Cities Index' ranks the Prescott metro area as the third best out of 179 smaller metro areas that were included in the ranking and fourth out of 149 national cities of comparable size for job attraction and retention.
- Top 50 in *Sperling's Best Places*. Listed as one of America's best green places to live.
- The *Farmers Insurance Group* named the Prescott Tri-City area as the 8th safest medium city in the U.S.
- One of the top 'Retirement Towns' as tallied by *Top Retirements.com*.

Prescott MLS data show that, over the longer term, housing prices in Prescott have typically increased at rates similar to the cost of living. However, values decreased from around mid-2006 in the recent market decline. According to Zillow.com the home price index for Prescott decreased from around \$352,000 in August of 2006 to \$221,000 in August, 2011. This decrease represents a drop of approximately 37% in home values in this community during the recent real estate market slump. This significant decrease may be compared with the declines for the neighboring communities of Flagstaff (34%)

and Cottonwood (49%) or for Phoenix (54%) or the state of Arizona in general (52%). According to the same source, the Home Value Index has increased by 8.8% in the past 12 months with the index at \$292,100 as of January, 2015.

Most of the Prescott area is contained within the Prescott Active Management Area (AMA). The AMA deals with water supply, demand, rights and availability in this area. In May 1998, the Arizona Department of Water Resources (ADWR) reported that 'water mining' might be taking place in the AMA. This condition refers to the removal of more ground water than is being replenished. Legislation in early May 1998 triggered a 90-day timetable after which laws pertaining to water use became temporary pending the outcome of a study of water use and supply in the AMA. According to Mr. Jim Holtz of ADWR, after the 90-day interim period which ended in August, subdivisions which apply for approval in the AMA must prove a 100 year assured supply from sources other than ground water.

The declaration of water mining and the subsequent restrictions placed on subdivision development in the Prescott AMA resulted in significant turmoil in the summer of 1998. After the implementation of the 90-day interim period, subdivision developers scrambled to get proposed subdivisions platted and engineered for approval of preliminary plats prior to the August deadline. Those plats which were approved are entitled to water service, via the City of Prescott's existing groundwater allowance. However, those not platted prior to the deadline must obtain assurance of water service from sources other than groundwater within the AMA, i.e. from surface water, ground-water outside the AMA or some renewable water source.

The City of Prescott embarked on a project to acquire the CV/CF Ranch located northwest of Paulden. The purpose of this acquisition would be to acquire rights to the substantial amount of groundwater reported to be contained in this property. After much progress had been toward this purchase, the City discovered an alternate ranch property, the JWK Ranch owned by the Kieckhefer Foundation. Finding that this ranch contained even more water and could be acquired at a lower price, the City abandoned its pursuit of the DC/DF Ranch and began negotiations with the Kieckhefer Foundation. The JWK Ranch and its substantial supply of ground water were acquired by the City of Prescott in the last week of 2004.

The ultimate application of the state legislation, the discovery of other alternate sources of water and the impact water availability will have on growth in the Prescott area remains speculative. However, most sources agree that, while the water issue may slow growth in the Prescott area over some periods, growth in the AMA is expected to continue over the longer term.

Prescott is linked to Interstate Highway 40 and 10 by U.S. Highway 89 and to Interstate 17 by Arizona Highway 69. Air transportation is available by private, chartered, or one commercial airline. Truck freight and buses are also available.

Prescott has four major shopping areas: 1) the downtown/central business district, 2) the Miller Valley area, 3) the Iron Springs Road area which includes three major shopping centers, and 4) the Highway 69 Corridor which includes the Prescott Gateway Mall which opened in 2002, as well as the Frontier Village Center, CostCo, WalMart, Lowe's Home Center and other major retailers. Two existing auto dealerships are also located in this corridor at the intersection of Highway 69 and Prescott Lakes Parkway.

Prescott's downtown remains the Central Business District (CBD) and the nucleus of the financial, legal and governmental sectors. It is also the heart of the tourist industry with its many restaurants, bars, and retail shops.

The Iron Springs Road area was for many years the main retail and commercial zone for the city. However, this area has declined to some extent with the development of two new neighborhood shopping centers and the Gateway Mall. These new centers have redistributed some of the retail activity in the community with the Highway 69 Corridor now the dominant retail location in the Tri-City area. The Miller Valley Road and Iron Springs corridors have suffered some decline due to businesses relocating to Highway 69.

The Prescott Gateway Mall adjoins The Ranch Subdivision in the east end of Prescott. This facility was developed by WestCor Partners, developers of a number of upscale retail centers in Phoenix and other Arizona communities. A re-zoning of some of the land proposed for the Mall was approved by the City Council, but was then referred to the voters via petitions gathered by opponents of the Mall. Development of the Mall was approved by the electorate in the November 1998 general election. The Mall, anchored by Sears and J.C. Penney, added over 500,000 square feet of additional retail space to the market. The Mall was expanded in 2011 and 2012 with the development of two new buildings at the immediate southwest corner of Highway 69 and Lee Boulevard. Among the occupants of this new component of the Mall are the popular Trader Joe's food store, Five Guys Burgers & Fries, and a few other retailers.

One of the neighborhood shopping centers is the Depot Center, anchored by Albertson's and Walgreen's, and located just north of Prescott's Central Business District at the corner of Montezuma and Sheldon Streets. Another is the Frontier Village, which is located on Highway 69 just east of Prescott on the Yavapai Indian Reservation. This center is anchored by Home Depot, Target, Harbor Freight Tools and Petco. A third new complex, located on Highway 69 at Walker Road, includes a large CostCo and a PetSmart. Together, these three centers contain over 750,000 square feet of retail area.

One of Prescott's main attractions is its climate. The winters are relatively mild and the summers are cool, rarely reaching 100 degrees, with low humidity. Located on the pine clad slopes of the Bradshaw range, Prescott offers a popular escape during the summer months to many and an aesthetic mountain setting for permanent residents. The chart on the following page summarizes Prescott's climate and illustrates both the absence of extreme conditions and the existence of four distinct seasons.

| Month | High | Low | Rain (Inches) | Snow (Inches) |
|-----------|------|------|---------------|---------------|
| January | 50 | 22 | 1.72 | 4.50 |
| February | 54 | 24 | 1.51 | 3.50 |
| March | 58 | 27 | 1.53 | 3.90 |
| April | 66 | 33 | 0.72 | 1.10 |
| May | 77 | 40 | 0.50 | 1.10 |
| June | 85 | 48 | 0.38 | 0.00 |
| July | 89 | 57 | 3.15 | 0.00 |
| August | 86 | 55 | 3.45 | 0.00 |
| September | 82 | 48 | 1.49 | 0.00 |
| October | 72 | 37 | 1.22 | 0.20 |
| November | 60 | 28 | 1.33 | 1.90 |
| December | 52 | 22 | 1.80 | 5.60 |
| Year | 69.1 | 36.8 | 18.80 | 20.60 |

As expected, the primary industry for the area is tourism. Prescott has much to offer visitors, especially in the summer months. Some of the attractions which lure numbers of visitors to Prescott are: some 27 summer camps in the pines above and around Prescott, "The World's Oldest Rodeo" on the Fourth of July, art shows, numerous softball tournaments, and, until 1990, the "Smoki Dances" (Indian Ceremonial performed by local Caucasian residents, which were halted after the 1990 performance as a result of criticism by Native Americans). In addition, the natural environment and scenic beauty found in the pine forests, mountains and Granite Dells in the vicinity lure many travelers to the area.

Secondary industries include light manufacturing, timber and wood products, mining, and cattle ranching. Prescott is primarily a service-oriented town, with retail trade and service related professions making up over 60% of the job base. Various city, state, and federal agencies follow, the largest of which is the U.S. Forest Service.

Cultural and recreational facilities in Prescott include:

| | |
|----------------------|---|
| Libraries | 5 |
| Museums | 3 |
| Art Galleries | 19 |
| Parks | 21 (211 Acres) |
| Pools | 3 |
| Golf Courses | 4 (18 Hole) |
| Athletic Facilities | 15 Baseball Diamonds |
| | 4 Football Fields |
| | 4 Soccer Fields (+multi-purpose fields) |
| Theaters | 6 |
| Tennis Courts | 16 (Lighted) |
| Roller Skating | 1 Rink |
| | 1 Skateboard Park |
| | 1 Roller Hockey Rink |
| Racquetball | 2 (Indoor Facilities) |
| Bowling | 1 |
| Prescott Animal Park | 1 |

Aside from climate and aesthetic factors which make Prescott an attractive retirement town, a large inventory of service facilities and personnel exist to care for the community. Prescott offers two major hospitals and over 160 doctors and surgeons. Numerous specialists such as osteopaths, oral surgeons, orthopedists, etc. also practice in Prescott. In addition, several full care nursing homes and congregate care centers exist.

Prescott has municipal water and sewer systems. Natural gas and electricity are also available. Television reception is available via cable or antenna, and in September 1982, KUSK, Prescott's first local television station, began broadcasting. In addition, the Prescott Community Access Channel also broadcasts programs which are generated in Prescott. Rates for community services are comparable to other communities around Arizona. The area is served by several radio stations, which provide an adequate range of listening. Four newspapers are available in the area, one local daily, one local weekly, one daily Phoenix papers and one national daily.

Law enforcement includes city police, sheriff's office for the area outside the city limits, and a highway patrol station. The city is governed by a mayor and council closely watched by the citizenry. A city manager is employed and the local government is reasonably efficient with no major internal problems evident in recent years.

Like many northern Arizona communities, Prescott has some traffic problems. The rapid growth in the community coupled with the hilly terrain and the early settlement of the area are cited as factors which have contributed to the traffic problems. While some observers project that traffic and street problems will worsen with increased population growth, most agree that conditions have improved due to the construction of new roadways in the community.

Five public elementary schools, several private and charter elementary schools, two middle schools, one public high school and multiple charter high schools, and three tertiary educational institutions serve the city. Recent national achievement scores in reading, grammar, and math conducted at both elementary and high school levels show Arizona's average scores to be above national averages in all categories. Prescott students scored well above the Arizona scores in all categories.

Yavapai College, a two-year community college, is based in Prescott and also has campuses in Prescott Valley and the Verde Valley. An accredited four year liberal arts college, Prescott College, is located in Prescott, and Embry Riddle Aeronautical University (ERAU) of Prescott has been located in their facility just north of the city since 1978. This four-year university contributes significantly to the Prescott economy. Its enrollment is approximately 1,700 students from all 50 states and 30 foreign countries.

The Prescott Resort, formerly the Sheraton Resort, situated on the Yavapai Indian Reservation, represents Prescott's first modern resort. This 161 room facility is capable of accommodating state-wide and smaller regional conventions, a feature which was previously unavailable in Prescott. In addition, the resort began offering video gaming machines in 1992 in conjunction with an agreement reached between the Yavapai

Indian Tribe and the State of Arizona. The advent of gambling has increased the already substantial traffic which visits the Sheraton. A second 18 hole golf course was developed by the City of Prescott adjacent to the longstanding 18 hole Antelope Hills Golf Course. Play on the new course began in the summer of 1992. Together, these new tourist facilities have expanded, and will continue to expand the scope of the already healthy tourism sector of the economy.

Major employers in the area include Yavapai County, Yavapai Regional Medical Center, Sturm Ruger & Co., Veteran's Administration Hospital, Prescott Unified School District, State of Arizona, City of Prescott, Embry-Riddle Aeronautical University, Yavapai College, Yavapai Gaming Agency, Wal-Mart, Caradon Better Built, Ace Hardware, Fann Contracting, Wulfsburg Electronics Division, Printpak, and Ace Hardware Regional Support Center.

CONCLUSION

For many years, the population of Prescott grew at a 2.5% to 3.0% rate. However, growth was negligible from around 2005 until 2013, a period of time which generally coincided with the recession and real estate market downturn. The slowdown in population growth notwithstanding, the community remains a popular retirement location and new economic development is expected to provide increased employment opportunities over the longer term. While the recession dampened the employment picture in Prescott for several years, some gains in employment have also be realized over the past two years.

The Prescott economy is characterized by generally good health and steady growth, the current economic downturn notwithstanding. The predominant factors contributing to Prescott's economic well-being are tourism, its status as a retail center for the surrounding area, its attraction as a retirement location, and its function as the Yavapai County seat. Expanded tourist facilities have increased the town's ability to attract and entertain visitors, while major additions to the retail sector have further improved the town's retail strength. The government sector provides stability and year round economic stimulus.

The Prescott area felt the impact of the national recession and the local real estate market declined markedly. Prices for many types of properties declined with home value index data revealing that the median price for single family dwellings decreased by as much as 37% from 2006 until 2011. The index increased by approximately 8.7% over the past year. Evidence of declining market conditions was noted for most types of commercial properties with rents declining and asking prices softening although this trend has also been reversed. New home construction was very slow during the recession but has rebounded well over the past three years.

The Prescott area is attractive to businesses looking to relocate due to its high quality of life and an abundant and relatively well-educated and well-trained workforce. However, it is not well suited for businesses which require rail service, immediate access to an interstate highway or which have high water usage requirements.

NEIGHBORHOOD DESCRIPTION

The subject property is located on the east side of Williamson Valley Road which extends northerly from Iron Springs Road in the northwest portion of the city of Prescott. The Prescott city limit currently extends approximately three and one half miles north of Iron Springs Road. Beyond this point, Williamson Valley is in an unincorporated area of Yavapai County. Iron Springs Road generally forms the southern boundary of the neighborhood with undeveloped lands surrounding the neighborhood on the north, east and west forming the other boundaries of the area. Much of the land in the subject neighborhood remains vacant, undeveloped land, although a growing number of residential subdivisions are springing up in the area.

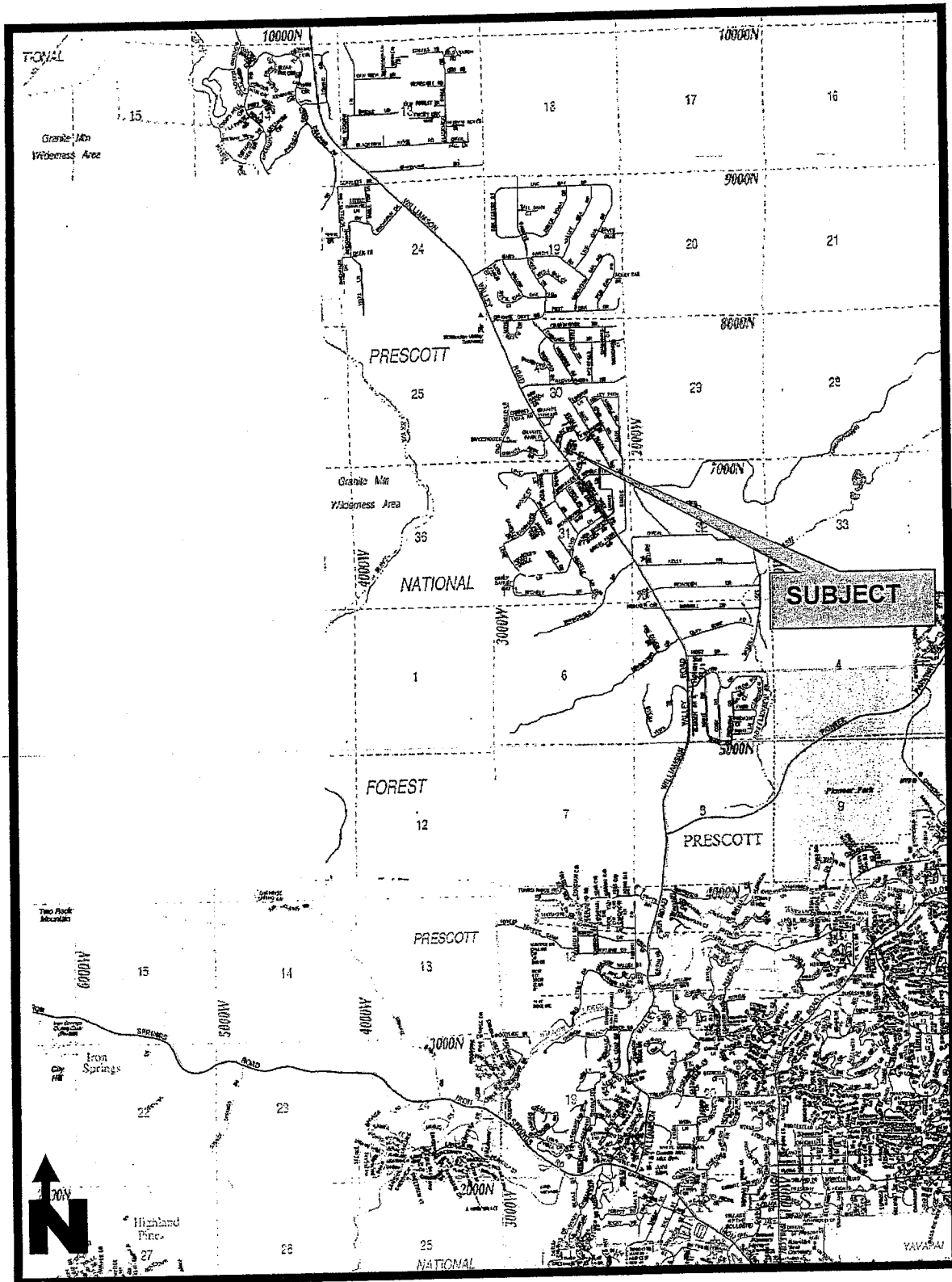
The area described as the subject neighborhood is a very low density area which is almost totally residential, agricultural and vacant land. The exceptions to the residential and agricultural uses in the area are two small church properties, two fire stations and a newly developed convenience store/gas station. Plans to develop even minimal commercial uses, such as a convenience store/gas station, met with resistance from residents in the area, although such a use has been developed and is being operated at the southeast corner of Williamson Valley Road and the 'Outer Loop' Road. However, it remains fairly certain that the neighborhood will continue to be almost exclusively residential in use. Homes in the area are generally of above average size, quality and price, although a few more modest areas of development exist. Some of the largest and most expensive homes in Prescott are found in Williamson Valley.

Because the area is almost exclusively residential, agricultural and vacant, few amenities and services are readily available in the subject area. As noted, there is only one commercial concern in the area and the closest location to obtain other goods and service is located in the well-developed commercial corridor along Iron Springs Road. Alternatively, residents in the northern end of Williamson Valley may choose to travel along the Outer Loop Road to Chino Valley to access some commercial concerns. Therefore, at the present, convenience and access to goods and services is poor for the subject area. However, this lifestyle is clearly preferred by residents in the area.

Schools are also located south of the subject area in the northwest portion of Prescott, proper. Elementary and middle schools are located near the intersection of Iron Springs Road and Williamson Valley Road. Prescott High School is slightly farther removed, being about two miles southeast of the aforementioned intersection.

Most of Williamson Valley is zoned for low-density residential or agricultural use. The area is served by both the Central Yavapai Fire District which operates a station south of the subject on Williamson Valley Road and the City of Prescott, which operates a station at the intersection of Williamson Valley Road and Iron Springs Road, south of the subject.

NEIGHBORHOOD MAP



The topography of the area ranges from near level to fairly steeply sloping with rolling hillsides. The terrain poses some barriers to development, although it is generally developable without extraordinary expense. Some areas are within flood hazard areas. Vegetation includes pinion pines, junipers, scrub oak, manzanita and shrubs.

Williamson Valley is served by some utilities and infrastructure, although the typical 'infrastructure package' in some areas is less complete than for modern residential subdivisions. For example, some new developments require homeowners to install private water well and septic systems, as opposed to central water and sewer systems. The newer subdivisions have asphalt paved roads, although the older developments are characterized by gravel surfaced roads. Electric power lines and telephone lines are, or can be extended to most locations in the neighborhood without undo difficulty or cost. Electric power is typically supplied to new developments via development agreements between Arizona Public Service and the property developers. Telephone service by CenturyLink is provided in the same way. Natural gas service is available to some areas of the neighborhood, although it is unavailable to many other areas.

There is no public transportation in the subject area, a condition which is not atypical within Prescott. As with other sections of the town, private parcel services are available. Pedestrian traffic in the area is minimal.

As land in Prescott, proper, has become scarcer, development in Williamson Valley has accelerated. While the area has long been established as a low density, rural residential area, a number of new, modern residential developments have emerged in recent years. Subdivisions such as the American Ranch, Southview, Granite Park Estates, Granite Oaks, Royal Oaks, Mint Creek Ranch, Inscription Canyon Ranch, Whispering Canyon Ranch and Talking Rock Ranch are among the 'new generation' subdivisions in the area.

Other active developments in the neighborhood include the Crossroads Ranch and the Long Meadow Ranch. These developments are characterized by large, 20 – 40 acre lots with a more modest infrastructure package.

Most traffic into and out of the area is via Williamson Valley Road. The increase in traffic volume on this roadway threatens to create congestion and/or reduce the rural atmosphere of the neighborhood. However, some relief was realized with the 2000 opening of the Pioneer Parkway which connects Williamson Valley Road with Willow Creek Road. This roadway, coupled with the improvement of Williamson Valley Road, should relieve congestion in the south end of the Williamson Valley Road corridor.

Over the longer term it is forecast that the growth in the Prescott/Prescott Valley/Chino Valley area will be north from Prescott and Prescott Valley and south from Chino Valley. This pattern of growth will consume the available land which lies between the two southern communities and Chino Valley. The subject neighborhood is well positioned to benefit from this growth trend since it is within this development corridor.

PROPERTY DESCRIPTION

The subject property is depicted on the following page and described as follows.

DIMENSIONS: Irregular; see parcel diagram.

SIZE: According to data obtained from the Yavapai County Assessor's Office, the parcel on which the subject easement is located contains ± 1.40 acres or $\pm 61,034$ square feet. The subject easement itself contains 1.024 acres or $\pm 44,594$ square feet.

FRONTAGE: The larger parcel and the easement both have frontage on Short Spur Trail and Williamson Valley Road.

POSITION: The site is a corner, rather than, an interior parcel.

SHAPE: Irregular; see parcel diagram.

ACCESS: From the southeast on Williamson Valley Road to northeast on Short Spur Trail.

STREET IMPROVEMENTS: Short Spur Trail is a dirt and gravel roadway with one lane of traffic in each direction. The road is not improved with curb, gutter, sidewalks and streetlights. Williamson Valley Road is asphalt paved with one lane of traffic in each direction. It is without other roadway improvements.

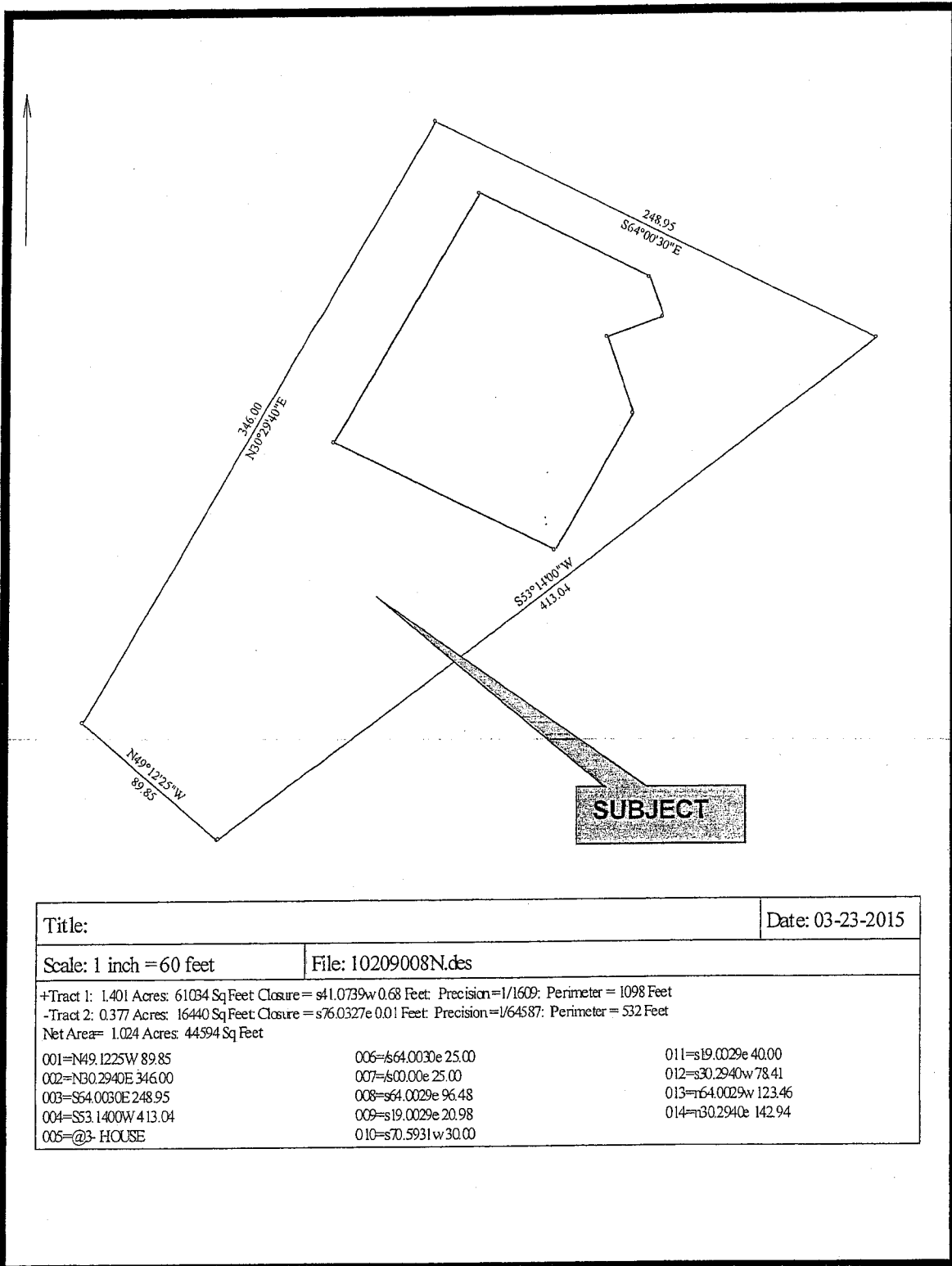
UTILITIES: The site is served by utilities as noted below:

| | |
|------------------|--------------------------------------|
| Electricity: | Arizona Public Service |
| Natural Gas: | Propane service |
| Telephone: | CenturyLink |
| Water: | Onsite water well |
| Sewage Disposal: | Onsite septic and leach field system |

TOPOGRAPHY: Most of the site is near level to gently sloping. The major exception is a shallow drainage channel which extends across the area of the easement in a north/south direction.

SOIL AND SUBSOIL: The appraiser is unaware of any soil or subsurface conditions which might reduce the utility of the site.

LAND AREA CALCULATIONS



AERIAL VIEW



EASEMENTS: The subject property is a non-restrictive, perpetual easement which was created for the use of the Granite Mountain Water Company for the placement, operation and maintenance of a water well in the easement. A complete legal description of this easement is found in the Addenda of this report.

FLOOD ZONE: According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map for this portion of Yavapai County (Panel #04025C1670G, dated September 3, 2010), the subject property is located within Zone X. The Zone X area which contains the subject site is an area of minimal flooding.

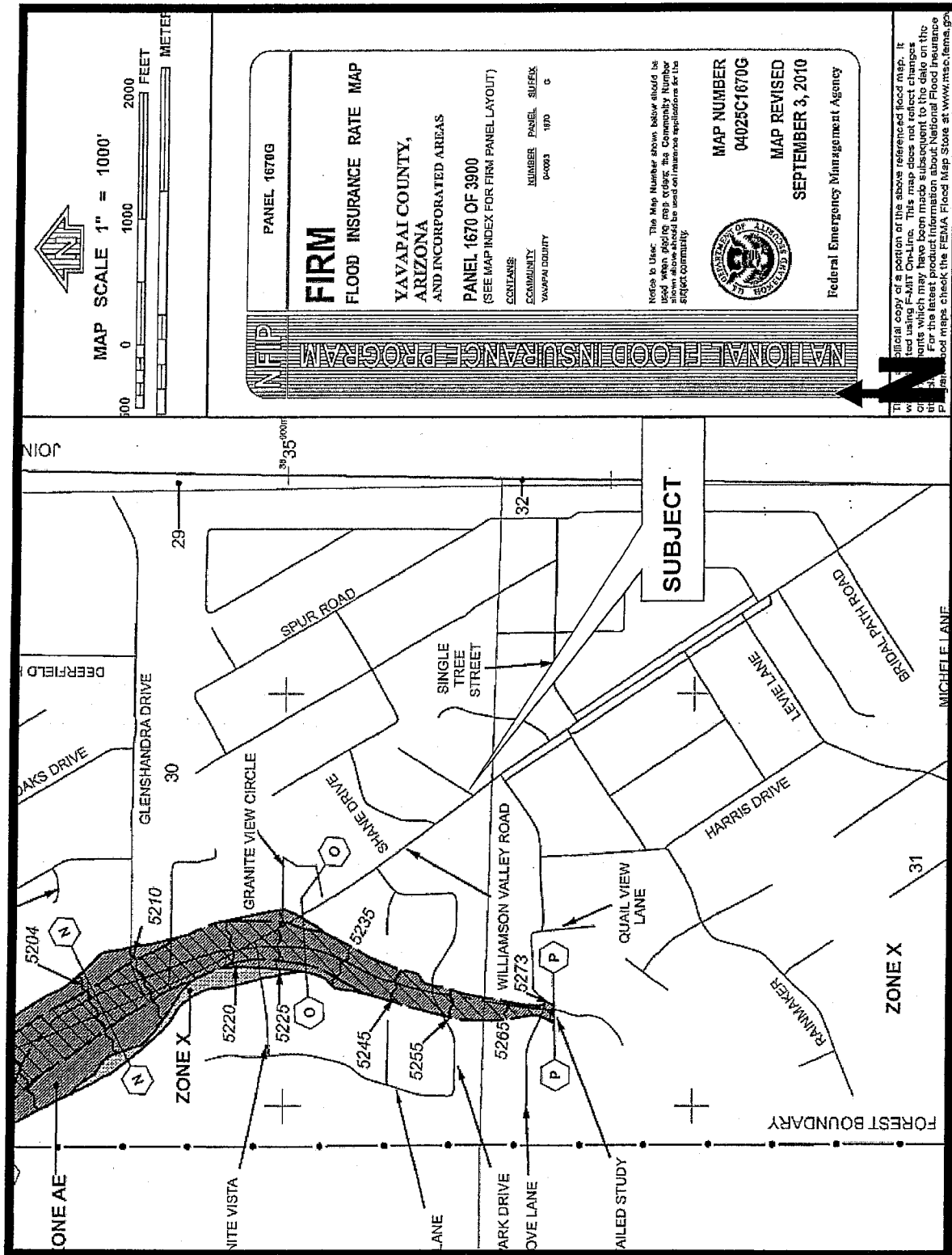
HAZARDS: None noted; no environmental hazards noted.

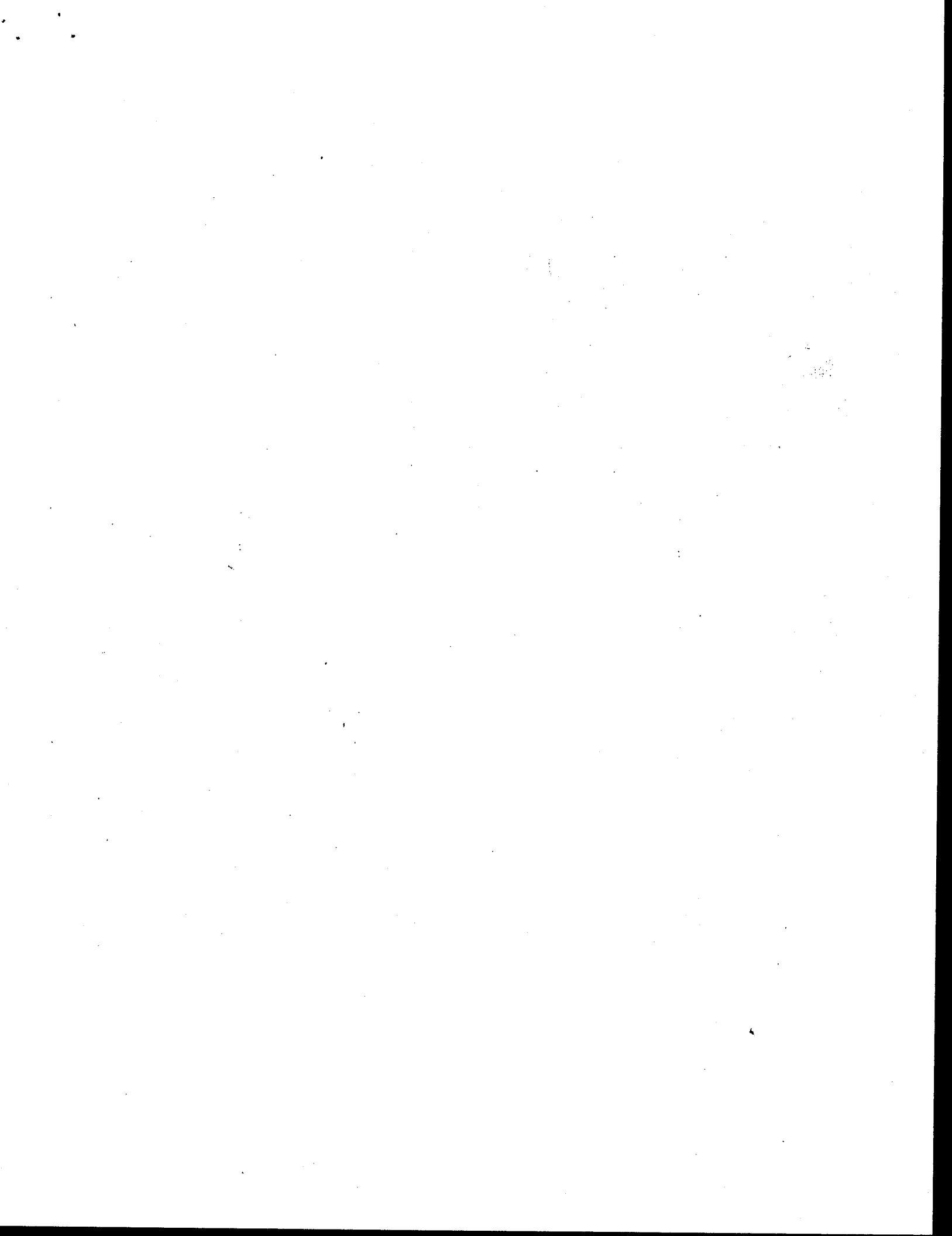
ENCROACHMENTS: None noted or reported.

UNIT OF COMPARISON: The most common units of comparison for residential land are the price per lot and price per square foot.

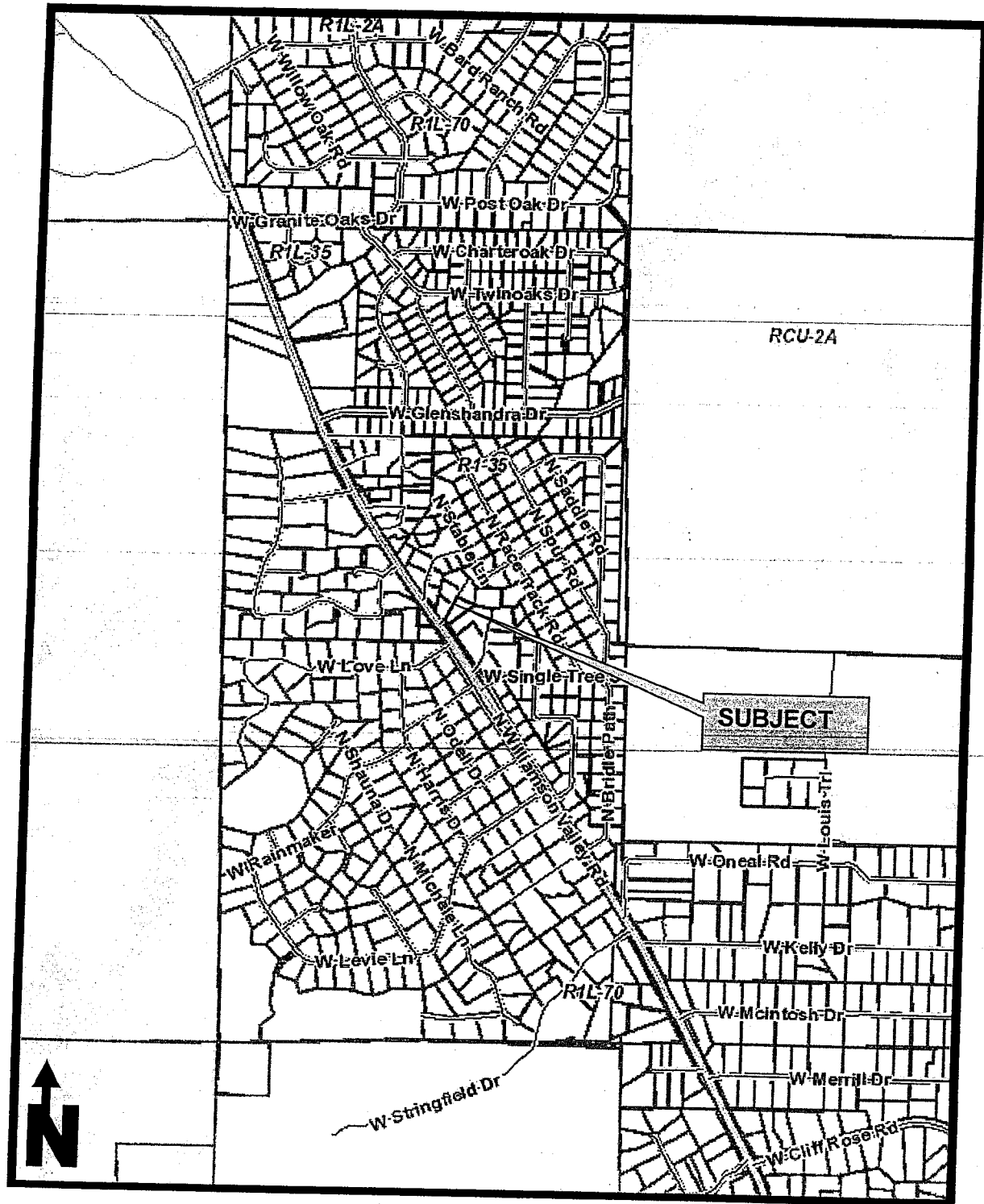
ZONING: The subject property is governed by the Yavapai County R1L-35 zoning district. Permitted uses in this zoning district include primarily single family residences of site built construction. A few other uses such as schools, churches, parks, bed & breakfast homestays, public utility facilities, etc. are also permitted. The minimum lot size is 35,000 square feet.

FLOOD MAP





ZONING MAP



DESCRIPTION OF IMPROVEMENTS

As of the date of valuation, the subject easement was improved with five outbuildings, a well, and miscellaneous site improvements. The description of improvements is based on the appraiser's formal inspection of the property, descriptions made by the property owner and data found in the office of the Yavapai County Assessor.

The 'larger parcel' to the subject easement is improved with a $\pm 1,440$ square foot single family dwelling, several outbuildings and miscellaneous site improvements. The residence is specifically excluded from the area of the easement. The outbuildings and site improvements included in the area of the easement are summarized in the table below and described in the descriptions with follow.

| BUILDING | USE | CONSTRUCTION | SIZE (SF) |
|--------------|-------------------|-------------------------------|-----------|
| Building #1: | Guest Room/Office | Wood frame/Finished | 702 SF |
| Building #2: | Shed | Wood frame/Unfinished | 128 SF |
| Building #3: | Shed | Wood frame/Unfinished | 64 SF |
| Building #4: | Shed | Wood frame/Unfinished | 65 SF |
| Building #5: | Well House | Wood frame/Partially finished | 108 SF |

Building #1 is the most substantial of the structures included in the easement. It is a wood framed building constructed on concrete and concrete block foundation and foundation walls. It has a poured concrete slab, wood framing with wood horizontal siding, and wood roof with composition shingles. It has a solid core wood door with glass lites. Windows are aluminum framed double pane, fixed plate and sliding glass windows. The interior of this building is finished with carpeting and taped, textured and painted drywall walls and ceilings. It is equipped with electric service and water but does not have a bathroom. This building can be used as a modest guest or worker's quarters (would require sharing bathroom facilities with the main house), office (also without bathroom), storage building, shop, etc. It is of fair quality and in average condition.

Buildings #2, 3 and 4 are simple wood framed shed buildings constructed on concrete foundation and slab. Roofs are wood framed structures with wood sheathing and composition shingles. The buildings are equipped with electrical power but are without plumbing service. The interiors of these buildings are unfinished or minimally finished. These buildings can be used for storage or shop uses. They are of fair quality and in average condition.

Building #5 is also a simple wood framed shed building constructed on concrete foundation and slab. The roof is wood framed with wood sheathing and composition shingles. The building is equipped with electrical power but is without plumbing fixtures. The interior of this building is partially finished with taped and painted drywall. This building was designed and intended for use as a well house. It is of average quality and in good condition.

SITE IMPROVEMENTS

Site improvements in the area of the easement include chain link and agricultural fencing, a water well situated on a concrete slab, mostly native vegetation and miscellaneous other site improvements. According to Mr. Paul Levie, the client, specifics of the well include:

| | |
|-------------------|--|
| Year Constructed: | 2006 |
| Depth: | 370' deep; |
| Diameter: | 6" for the upper portion, then 5"; |
| Casing: | Yes; |
| Capacity: | The maximum legal capacity of the well is reportedly 30 gallons per minute. The well reportedly sustains this level of pumping indefinitely. |

ANALYSIS OF DATA AND CONCLUSIONS

HIGHEST AND BEST USE

In the third edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute, *highest and best use* is defined as:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.⁷

The highest and best use of land or a site as though vacant is defined as:

"Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements."⁸

The highest and best use of a property as improved is defined as:

"The use that should be made of a property as it exists. An existing property should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one."⁹

The definitions of highest and best use indicate that there are two types of highest and best use. The first type is highest and best use of the land or a site as though vacant. The second is highest and best use of a property as improved. Each type requires a separate analysis. Moreover, in each case, the existing use may or may not be different from the site's highest and best use.

In estimating Highest and Best Use we examine possible use, permissible use, feasible use, and among the uses stated that use which will provide the highest return.

⁷ The Dictionary of Real Estate Appraisal, Third Edition, page 171

⁸ The Dictionary of Real Estate Appraisal, Third Edition, page 171

⁹ The Dictionary of Real Estate Appraisal, Third Edition, page 171

AS VACANT

The highest and best use of the subject easement is somewhat conceptual since parcels with this irregular shape and package of improvements are not common in this market. The easement was created for the specific use of providing land, a well site and required improvements for a water well used in conjunction with the Granite Mountain Water Company. Therefore, it may be concluded that the highest and best use of the easement should not be analyzed using the conventional tests of highest and best use (*legally permissible, physically possible, financially feasible and maximally productive*). However, it may be concluded that the highest and best use of the subject easement is use in conjunction with the Granite Mountain Water Company.

For reference, it may be noted that the highest and best use of the 'larger parcel' on which the subject easement has been created, as if vacant' is for development of a low density single family residence. Such a use is *legally permissible, physically possible, financially feasible and maximally productive*. Therefore, it may be concluded that the highest and best use of the larger parcel site is for development of a single family residence.

AS IMPROVED

The conclusions of the highest and best use of the subject easement and the larger parcel in the 'as improved' analyses are the same as those concluded in the analyses of the properties in the 'as vacant' analyses.

APPROACHES TO VALUE

In the valuation of real estate, three approaches to value are generally recognized.

COST APPROACH: *That approach in appraisal analysis which is based on the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject property. It is particularly applicable when the property being appraised involves relatively new improvements which represent the highest and best use of the land or when relatively unique or specialized improvements are located on the site and for which there exists no comparable properties on the market.*¹⁰

SALES COMPARISON APPROACH: *Traditionally, an appraisal procedure in which the market value estimate is predicated upon prices paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market (price wise), and the latter fixing the higher limit in any market. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon; (a) the availability of comparable sales data, (b) the verification of sales data, (c) the degree of comparability or extent of adjustment necessary for time differences, and (d) the absence of non-typical conditions affecting the sale price.*¹¹

INCOME CAPITALIZATION APPROACH: *That procedure in appraisal analysis which converts anticipated benefits (dollar income or amenities) to be derived from the ownership of property into a value estimate. The income approach is widely applied in appraising income-producing properties. Anticipated future income and/reversion are discounted to a present worth figure through the capitalization process.*¹²

In essence, all approaches to value (particularly when the purpose of the appraisal is to establish market value) are market data approaches since the data inputs are presumed to be market derived.

Only one of the three approaches, the sales comparison approach, is processed in the valuation of the subject site. The cost approach is developed in the analysis of the improvements in the subject easement.

¹⁰ Byrl N. Boyce, Ph.D. Real Estate Appraisal Terminology (Cambridge, Mass., 1975) page 53

¹¹ Boyce, Real Estate Appraisal Terminology, page 136

¹² Boyce, Real Estate Appraisal Terminology, page 112

SALES COMPARISON APPROACH

The Sales Comparison Approach is an appraisal procedure in which the market value estimate is predicated upon prices paid in actual market transactions. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon: (a) The availability of comparable sales data; (b) The verification of the sales data; (c) The degree of comparability or extent of adjustment necessary for time differences; and (d) The absence of non-typical conditions affecting the sales price.

PRESENTATION OF COMPARABLE SALES

A search for the sales of similar vacant residential parcels in similar locations has been conducted within the subject submarket. The appraiser has preliminarily researched the sales and listings of many such properties which may be applicable in the valuation of the subject property. The sales of five vacant residential parcels are introduced as formal comparables which are used in the analysis of the subject property.

COMPARABLE LAND SALES

1. AP# 102-14-014; 2746 Boone Court, Granite Mountain Homesites, Prescott:
9/2014 Sale @ \$120,000/126,324 SF = \$.95/SF
Superior View; Inferior Topo
2. AP# 102-01-226; 2880 Friendly Meadow Rd, Williamson Vly Ranches, Prescott:
6/2014 Sale @ \$95,000/130,680 SF = \$.73/SF
Similar View, Similar Topo
3. AP# 102-10-022; 2575 Levie Lane, Granite Mountain Homesites, Prescott:
3/2014 Sale @ \$90,000/106,286 SF = \$.85/SF
Superior View; Similar Topo
4. AP# 102-10-081; 6351 Nicholes Knoll, Granite Mountain Homesites, Prescott:
1/2014 Sale @ \$97,500/76,230 SF = \$1.28/SF
Superior View; Inferior Topo
5. AP# 102-14-025; 2790 Rainmaker, Granite Mountain Homesites, Prescott:
11/2013 Sale @ \$75,000/79,279 SF = \$.95/SF
Superior View; Inferior Topo

SALES COMPARISON APPROACH PROCEDURE

The sales comparison approach technique used in the valuation of the subject property involves the valuation of the property based on the package price per square foot of building area.

In this analysis, the sale price for each of the comparables is reduced to a price per square foot. This unit of comparison provides the basis for comparing the comparables with the subject. A "package" price per square foot will be extracted from the comparable data and applied to the square footage of the subject building. This package price per square foot is extracted by dividing the total sale price by the primary building area.

Adjustments to Comparable Sales

Prior to applying this technique, the comparables are analyzed for required adjustments. Each sale has been analyzed with respect to various elements of comparison. Elements such as *property rights conveyed, financing terms, conditions of sale, market conditions, non-realty components, location, and physical characteristics* have been considered. Adjustments for these elements are made where supported by market data.

The adjustments to the comparable sales are summarized in the adjustment grid on the following page.

COMPARABLE ADJUSTMINT GRID

| Comparable Number | 1 | 2 | 3 | 4 | 5 | |
|-------------------------|------------------|----------------------|-----------------|---------------------|----------------|----------|
| Property Identification | 2746 Boone Court | 2880 Friendly Meadow | 2575 Levie Lane | 6352 Nicholes Knoll | 2790 Rainmaker | Means |
| Size In Square Feet | 126,324 | 130,680 | 106,286 | 76,230 | 79,279 | 103,760 |
| Transaction Price | \$120,000 | \$95,000 | \$90,000 | \$97,500 | \$75,000 | \$95,500 |
| Price Per Square Foot | \$0.95 | \$0.73 | \$0.85 | \$1.28 | \$0.95 | \$0.95 |
| Rights Conveyed | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Financing Terms | Cash | CTNL | Cash | CTNL | Cash | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Conditions of Sale | Typical | Typical | Typical | Typical | Typical | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Improvements | None | None | None | None | None | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Expend. After Sale | Typical | Typical | Typical | Typical | Typical | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Adjusted Price | \$120,000 | \$95,000 | \$90,000 | \$97,500 | \$75,000 | \$95,500 |
| Adjusted Price/SF | \$0.95 | \$0.73 | \$0.85 | \$1.28 | \$0.95 | \$0.95 |
| Market Conditions | 9/2014 Sale | 6/2014 Sale | 3/2014 Sale | 1/2014 Sale | 11/2013 Sale | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | |
| MC-Adjusted Price | \$120,000 | \$95,000 | \$90,000 | \$97,500 | \$75,000 | \$95,500 |
| MC-Adjusted \$/SF | \$0.95 | \$0.73 | \$0.85 | \$1.28 | \$0.95 | \$0.95 |
| Location | | | | | | |
| General | Similar | Similar | Similar | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | |
| Corner | N/A | N/A | N/A | N/A | N/A | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | |
| Physical Character, | | | | | | |
| Size in Square Feet | 126,324 | 130,680 | 106,286 | 76,230 | 79,279 | |
| Adjustment % | 40% | 40% | 30% | 20% | 20% | |
| Adjustment \$ | \$0.38 | \$0.29 | \$0.26 | \$0.26 | \$0.19 | |
| View | Superior | Similar | Superior | Superior | Superior | |
| Adjustment % | -35% | 0% | -15% | -35% | -20% | |
| Adjustment \$ | (\$0.33) | \$0.00 | (\$0.13) | (\$0.45) | (\$0.19) | |
| Topography/Flood | Inferior | Similar | Similar | Inferior | Inferior | |
| Adjustment % | 15% | 0% | 0% | 10% | 15% | |
| Adjustment \$/SF | \$0.14 | \$0.00 | \$0.00 | \$0.13 | \$0.14 | |
| Infrastructure | Similar | Similar | Similar | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$/SF | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | |
| Zoning/Density/Use | Similar | Similar | Similar | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$/SF | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | |
| Indicated Price \$/SF | \$1.14 | \$1.02 | \$0.98 | \$1.22 | \$1.09 | \$1.09 |
| Net Adjustment \$/SF | \$0.19 | \$0.29 | \$0.13 | (\$0.06) | \$0.14 | |
| Net Adjustment % | 20.0% | 39.7% | 15.3% | -4.7% | 14.7% | |

Price per Square Foot Analysis

The unadjusted unit prices extracted from the comparable sales prices range from \$.73 to \$1.28 per square foot. The mean value is \$.95 per square foot. After adjustments, the range is narrowed to \$.98 to \$1.22 per square foot and the mean becomes \$1.09 per square foot.

Comparables #4 and 5 most closely resemble the subject in lot size, an important consideration when analyzing the sales. The fully adjusted unit prices extracted from these sales are within the upper end of the range of fully adjusted unit values. Therefore, a value within the high end of the indicated range, say \$1.15 per square foot, is concluded for the subject property. The total value of the subject's 'larger parcel' based on this unit value is calculated as shown below.

$$\begin{aligned} 61,034 \text{ Square Feet @ } \$1.15/\text{SF} &= \$70,189 \\ \text{Rounded to: } &\$70,189 \end{aligned}$$

Price per Lot Analysis

A price per lot analysis is included as a test of reasonableness. This unit of comparison is especially relevant in analyzing single family lots since many buyers view the purchase of such a lot as the purchase of a single homesite, rather than a given number of square feet. Therefore, this analysis is also relevant.

When expressed on a price per lot basis, the unadjusted prices extracted from the sales range from \$75,000 to \$120,000 per lot. The adjustments made in the price per square foot analysis are not all applicable in this analysis since the adjustments for lot size would be negative given the subject's small size relative to the comparables. However, a subjective analysis is still relevant.

The subject's relatively small size would suggest a value near or even below the low end of the range of values indicated by the comparables. The lowest price paid for the comparables is \$75,000. The size of the subject's 'larger parcel' is 61,034 square feet, a size which is somewhat smaller than the 76,230 square feet that characterizes the smallest of the comparables. A negative adjustment of 5% is suggested to account for this size difference. When applied to the \$75,000 low end of the range of rates for the comparables a price equal to \$71,250 is indicated for the larger parcel to the subject easement.

Conclusion of Land Value; Fee Simple Estate

This analysis suggests a range of values of from approximately \$70,000 to \$71,000. An opinion of value equal to \$70,000 is appropriate for the subject's larger parcel. This lot value is reduced to a price per square foot as shown in the following calculation.

$$\$70,000 \div 61,034 \text{ Square Feet} = \$1.15/\text{SF}$$

Once this unit value has been extracted from the opinion of value for the total larger parcel, it can be applied to the area in the subject easement as shown below. The value derived in the following calculations pertains to the implied value of the *fee simple* interest in the subject easement. Any appropriate diminution in value attributable to the nature of the subject easement is discussed in the following section of this report.

$$44,594 \text{ SF} @ \$1.15/\text{SF} = \$51,283$$

Conclusion of Land Value; Easement

The subject easement is described as an unrestricted easement. The receipt for the payment of the easement indicates that uses of the easement include:

1. All purposes of ingress and egress;
2. Use and maintenance of Granite Mountain Water Company (GWMC) Well #6, other water delivery facilities and associated buildings pertaining thereto;
3. Drilling and construction of any additional well or wells located within 600 feet of grandfathered GMWC Well #5; and
4. Construction and maintenance of future facilities required at the sole discretion of GWMC for continuance of its certificate of public convenience and necessity in serving water customers.

This easement appears to be very all-encompassing for the GWMC. It also severely restricts the use of the land in the easement by the owners of the larger parcel in that the owner of the fee title and/or his assigns, lessees, invitees, etc.:

1. Cannot build structures on the land in the easement;
2. Cannot build fences, walls, corrals, etc. in the land in the easement;
3. Cannot store vehicles, equipment, supplies, etc. which limit GWMC's ability to drill, operate or maintain wells on the property;
4. Cannot conduct any activities which otherwise limit the GWMC's ability to drill, operate and maintain wells on the property;

These restrictions are very limiting with respect to the owner of the fee title and or his assigns, lessees, invitees, etc. However, these parties still enjoy a small amount of benefits from the land contained in the easement. These benefits may include (but are not limited to):

1. Buffer from surrounding homes, roads and other uses;
2. Use for pets or farm animals;
3. Use for landscaping, play area, etc.

These observations suggest that the rights transferred from the owner are less than 100% of the implied value of the land in the easement. Although subjective, it is concluded that approximately 90% of the utility and value of the land in the easement has been transferred to the holder of the easement. This calculation is shown below.

$$\begin{aligned}\text{Opinion of Value for Fee Simple Interest} &= \$51,283 \\ \text{Rights Transferred} &= \times .90 \\ & \$46,155 \\ \text{Rounded to:} & \$46,000\end{aligned}$$

COST APPROACH

VALUATION OF IMPROVEMENTS

The cost estimates used in this analysis are derived from cost data published by Marshall Valuation Service. The Marshall & Swift Publishing Company has offices located in several principle cities throughout the United States. The cost data presented is based upon years of valuation experience, thousands of appraisals, and continuous analysis of the cost of new buildings. Our appraisal firm subscribes to this service and is brought up to date with monthly supplements which adjust for any price changes.

The replacement cost is the estimated cost to construct, at current prices, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout.¹³ It is distinct from the reproduction cost, which is the estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship, and embodying all the deficiencies, superadequacies, and obsolescence of the subject building.¹⁴

The cost approach summary for the improvements contained in the subject easement are summarized as shown on the following page.

¹³ The Dictionary of Real Estate Appraisal, Third Edition, p 303.

¹⁴ The Dictionary of Real Estate Appraisal, Third Edition, p 304.

COST APPROACH SUMMARY

| | Building #1 | Building #2 | Building #3 | Building #4 | Building #5 | | |
|--|----------------|----------------|----------------|----------------|----------------|----------|----------|
| Base Cost, Average D, /Farm Housing: | \$43.25 | | | | | | |
| Base Cost, Average D, Tool Shed: | | \$11.97 | | | | | |
| Base Cost, Average D, Tool Shed: | | | \$11.97 | | | | |
| Base Cost, Average D, Tool Shed: | | | | \$11.97 | | | |
| Base Cost, Average D, Tool Shed: | | | | | \$11.97 | | |
| Base Cost: | \$43.25 | \$11.97 | \$11.97 | \$11.97 | \$11.97 | | |
| Interior Adjustment: | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | | |
| HVAC Adjustment: | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | | |
| Plumbing Adjustment: | (\$4.30) | \$0.00 | \$0.00 | \$0.00 | \$0.00 | | |
| Adjusted Base Cost: | \$38.95 | \$11.97 | \$11.97 | \$11.97 | \$11.97 | | |
| Story/Height Adjust: | 0.9810 | 0.9630 | 0.9630 | 0.9630 | 0.9630 | | |
| Area/Perimeter Adjust: | 1.0500 | 1.1000 | 1.1000 | 1.1000 | 1.1000 | | |
| Current Multiplier: | 1.0800 | 1.0800 | 1.0800 | 1.0800 | 1.0800 | | |
| Local Multiplier: | 0.9800 | 0.9800 | 0.9800 | 0.9800 | 0.9800 | | |
| Adjusted Cost S.F.: | \$42.46 | \$13.42 | \$13.42 | \$13.42 | \$13.42 | | |
| Building #1: | 702 SF @ | | \$42.46 | = | | \$29,807 | |
| Building #2: | 128 SF @ | | \$13.42 | = | | \$1,718 | |
| Building #3: | 64 SF @ | | \$13.42 | = | | \$859 | |
| Building #4: | 65 SF @ | | \$13.42 | = | | \$872 | |
| Building #5: | 108 SF @ | | \$13.42 | = | | \$1,449 | |
| Well, Pump & Slab: | | | Lump Sum | = | | \$16,000 | |
| | | | | | | \$50,705 | |
| Developer's Profit: | 0% | X | \$50,705 | = | | \$0 | \$50,705 |
| Less Depreciation: | | | | | | | |
| Physical: | | | | | | | |
| Curable: | | | \$0 | | | | |
| Incurable: | | | | | | | |
| Short Lived: | | | \$0 | | | | |
| Long Lived, Building 1: | 30% | | \$8,942 | | | | |
| Building 2: | 30% | | \$515 | | | | |
| Building 3: | 35% | | \$301 | | | | |
| Building 4: | 35% | | \$305 | | | | |
| Building 5: | 15% | | \$217 | | | | |
| Site Improvements: | | | \$0 | | | | |
| | | | | | | \$10,281 | |
| Functional: | | | | | | | |
| Curable: | | | \$0 | | | | |
| Incurable: | 15% | | \$6,064 | | | | |
| Total Functional: | | | \$6,064 | | | \$6,064 | |
| Total External: | | | | | | \$0 | |
| Total Depreciation: | | | | | | | \$16,344 |
| Depreciated Value of All Improvements: | | | | | | | \$34,361 |
| Plus: Estimated Land Value: | | | | | | | \$46,000 |
| Indicated Value of Subject Property: | | | | | | | \$80,361 |
| Rounded To: | | | | | | | \$80,000 |

VALUE CONCLUSIONS

By reason of my investigation and having given careful consideration to the factors which affect real estate value, I have concluded the following retrospective market value of the subject property as of May 29, 2014:

**EIGHTY THOUSAND DOLLARS
(\$80,000)**

EXPOSURE TIME

Exposure time is not relevant in the analysis of the subject easement.

ADDENDA

Subject Photos
Easement Legal Description
Zoning Ordinance
Comparable Location Map
Comparable Photos
Letter of Engagement
Certification
Standard Assumptions and Limiting Conditions
Appraiser's State Certificate
Appraiser's Qualifications

2475 W. Short Spur Trail, Yavapai County, Arizona
Subject Photographs



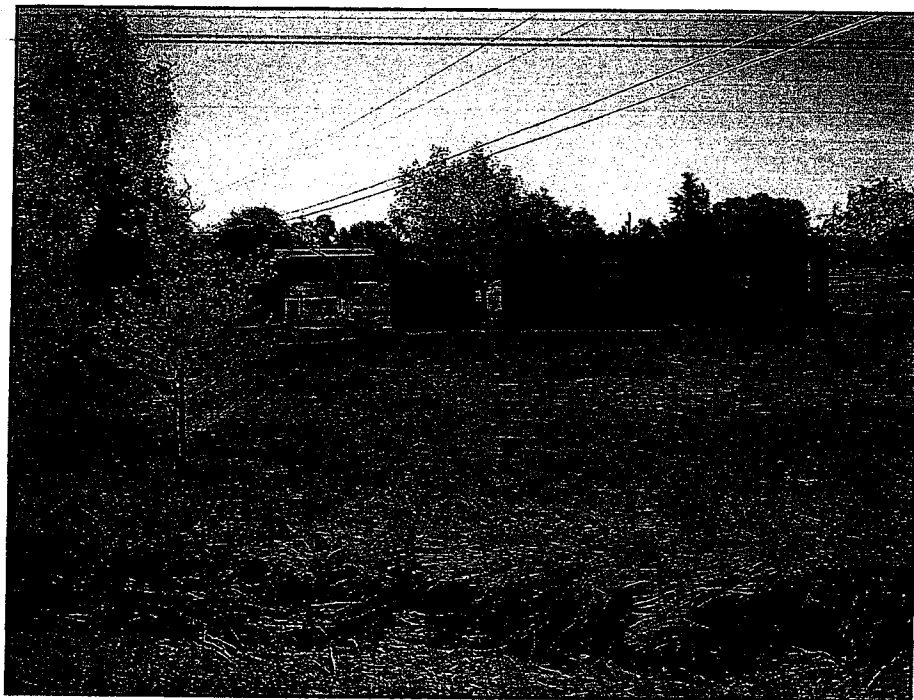
Front view of the larger parcel taken from the Short Spur frontage.



Front view of the larger parcel taken from the Short Spur frontage.



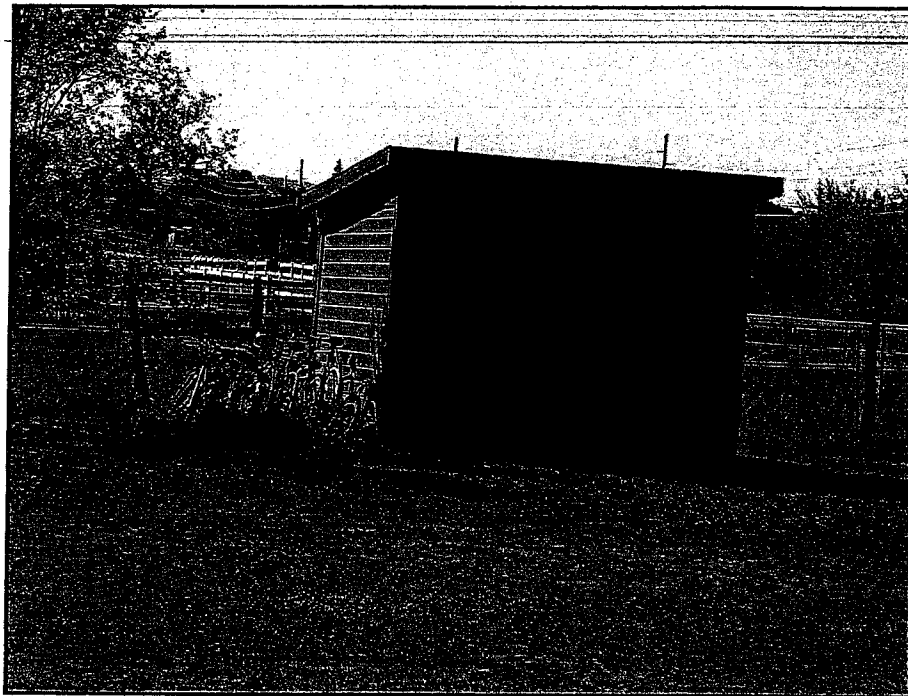
View of outbuildings located in the subject easement.



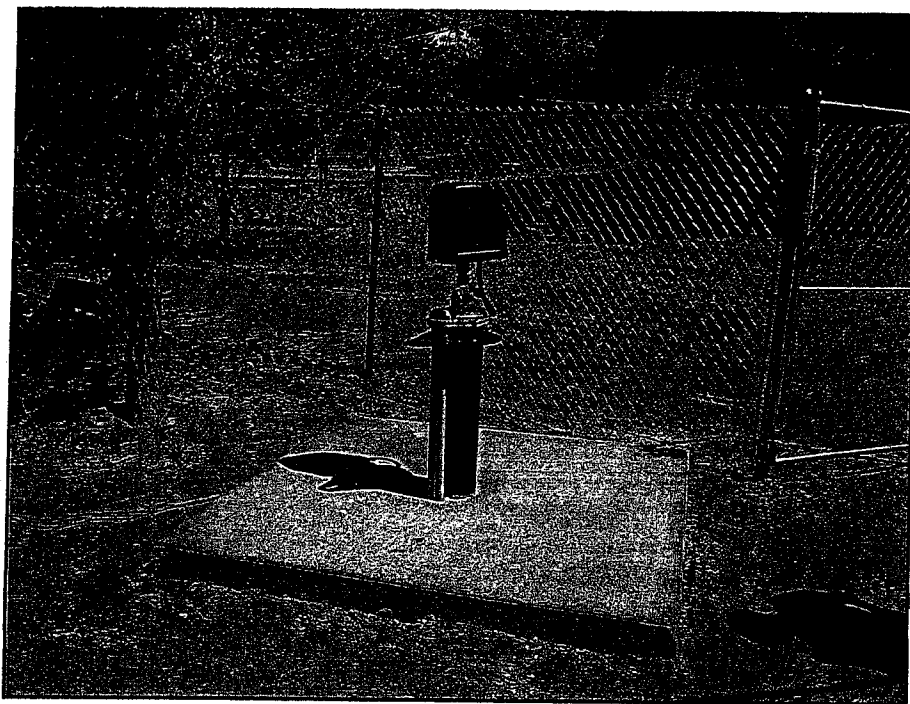
View of outbuildings located in the subject easement.



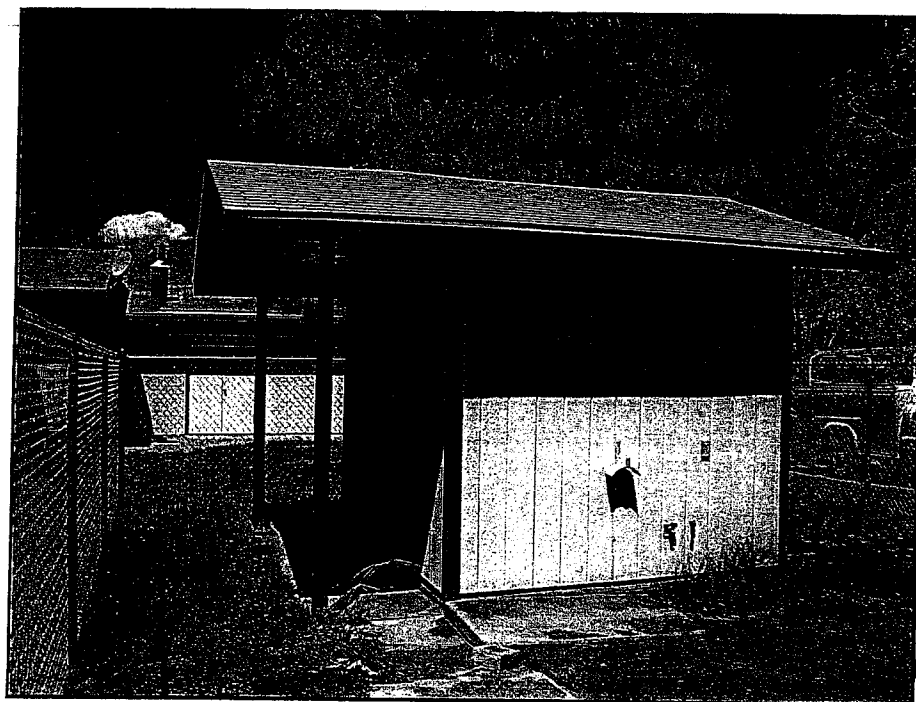
View of outbuildings located in the subject easement.



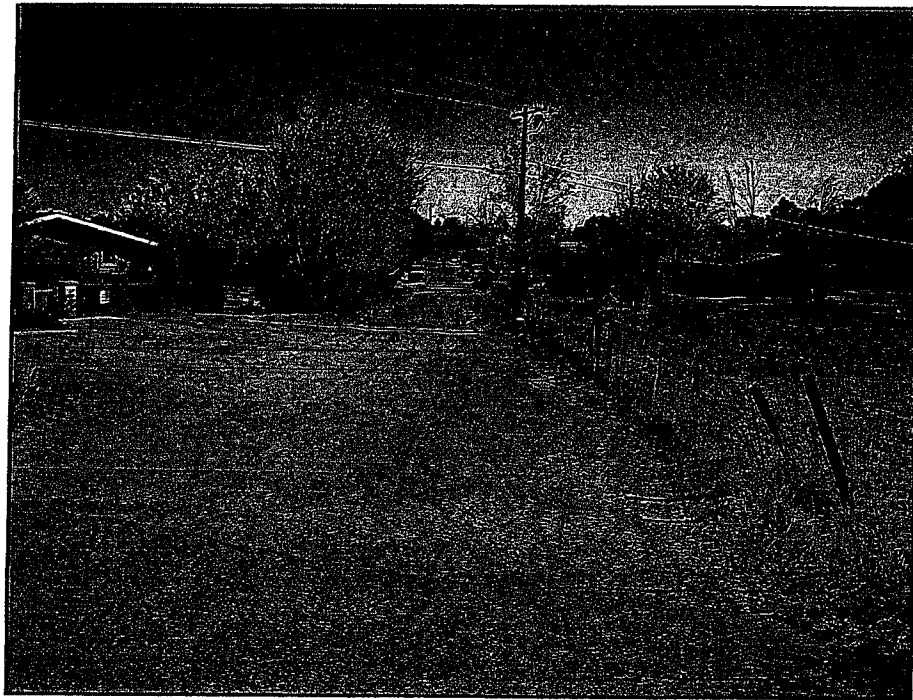
View of outbuildings located in the subject easement.



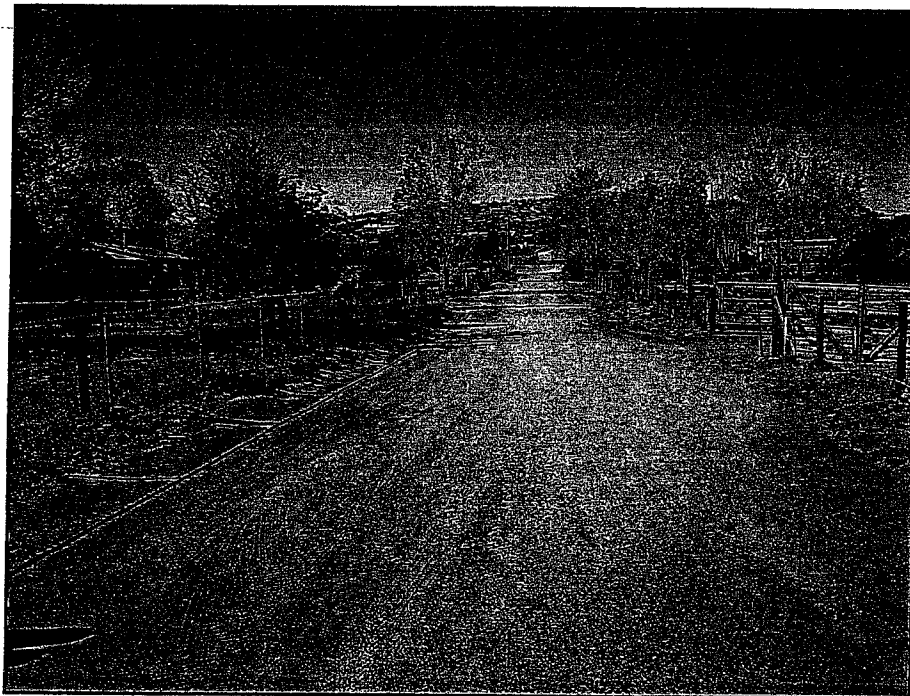
View of the well.



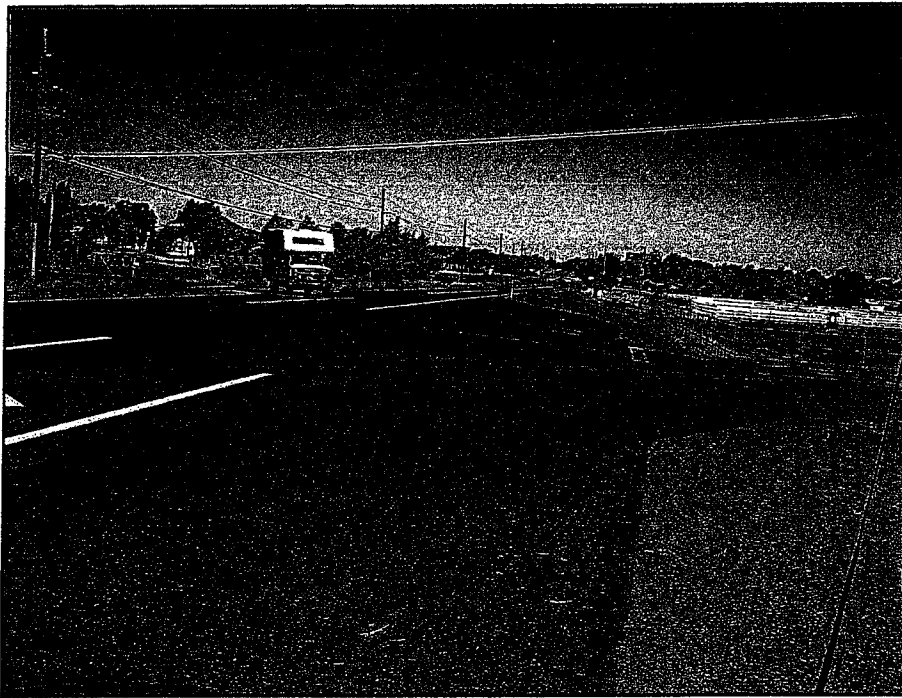
View of the well house.



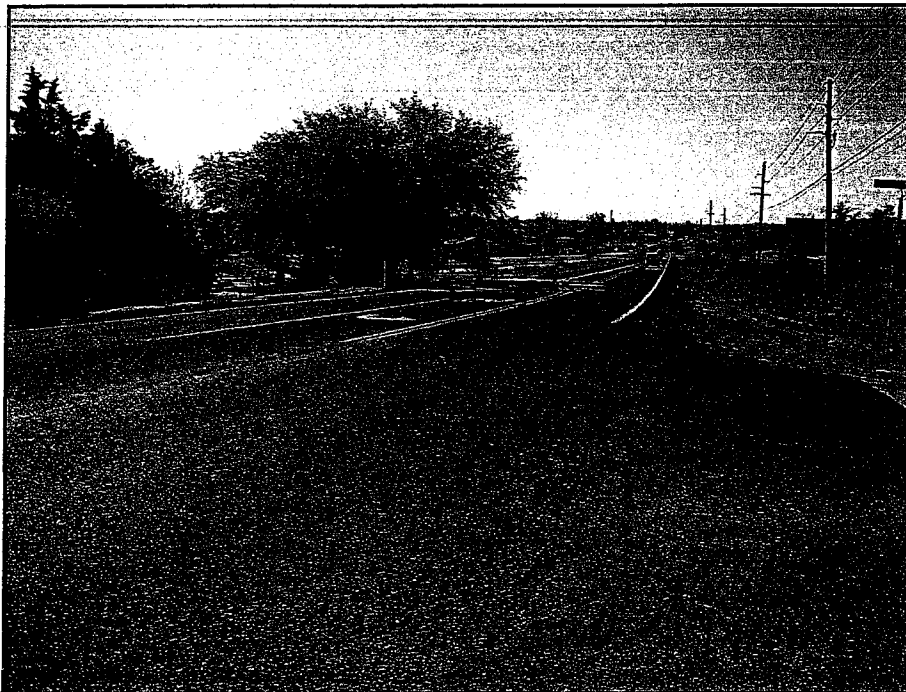
Street view looking northeast on Short Spur Trail.



Street view looking southwest on Short Spur Trail.



Street view looking northwest on Williamson Valley Road in the vicinity of the subject property.



Street view looking southeast on Williamson Valley Road in the vicinity of the subject property.

**NEXUS SOUTHWEST, LLC
REGISTERED LAND SURVEYORS**



212 S. Marina St. • Prescott, Arizona 86303
Phone 928-778-5101 • Fax 928-778-9321 • info@nexus-sw.net

EASEMENT DESCRIPTION

An easement, located within the Southeast Quarter of Section 30, Township 15 North, Range 2 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

ALL of that certain parcel, described in instrument recorded in Book 4936 of Official Records, Page 54, on file in the Yavapai County Recorder's Office, Yavapai County, Arizona,

EXCEPTING THEREFROM THE FOLLOWING DESCRIBED PORTION OF SAID PARCEL:

Commencing at the most Northeasterly corner of the above described parcel;

Thence, North 64°00'30" West, a distance of 121.05 feet, along the North property line of the above described parcel;

Thence, South 25°59'30" West, a distance of 20.00 feet, to the **POINT OF BEGINNING**;

Thence, South 19°00'29" East, a distance of 20.98 feet;

Thence, South 70°59'31" West, a distance of 30.00 feet;

Thence, South 19°00'29" East, a distance of 40.00 feet;

Thence, South 30°29'40" West, a distance of 78.41 feet;

Thence, North 64°00'29" West, a distance of 123.46 feet;

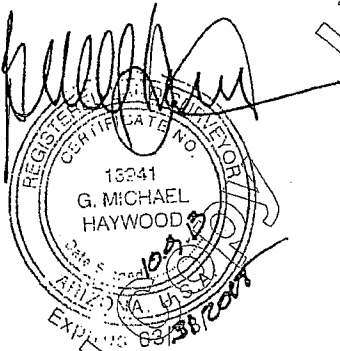
October 9, 2013

Job # 13-014

Granite Mtn Homesites, Short Spur Trail, Well #6 Esmnt Page 1 of 2

Thence, North 30°29'40" East, a distance of 142.94 feet;

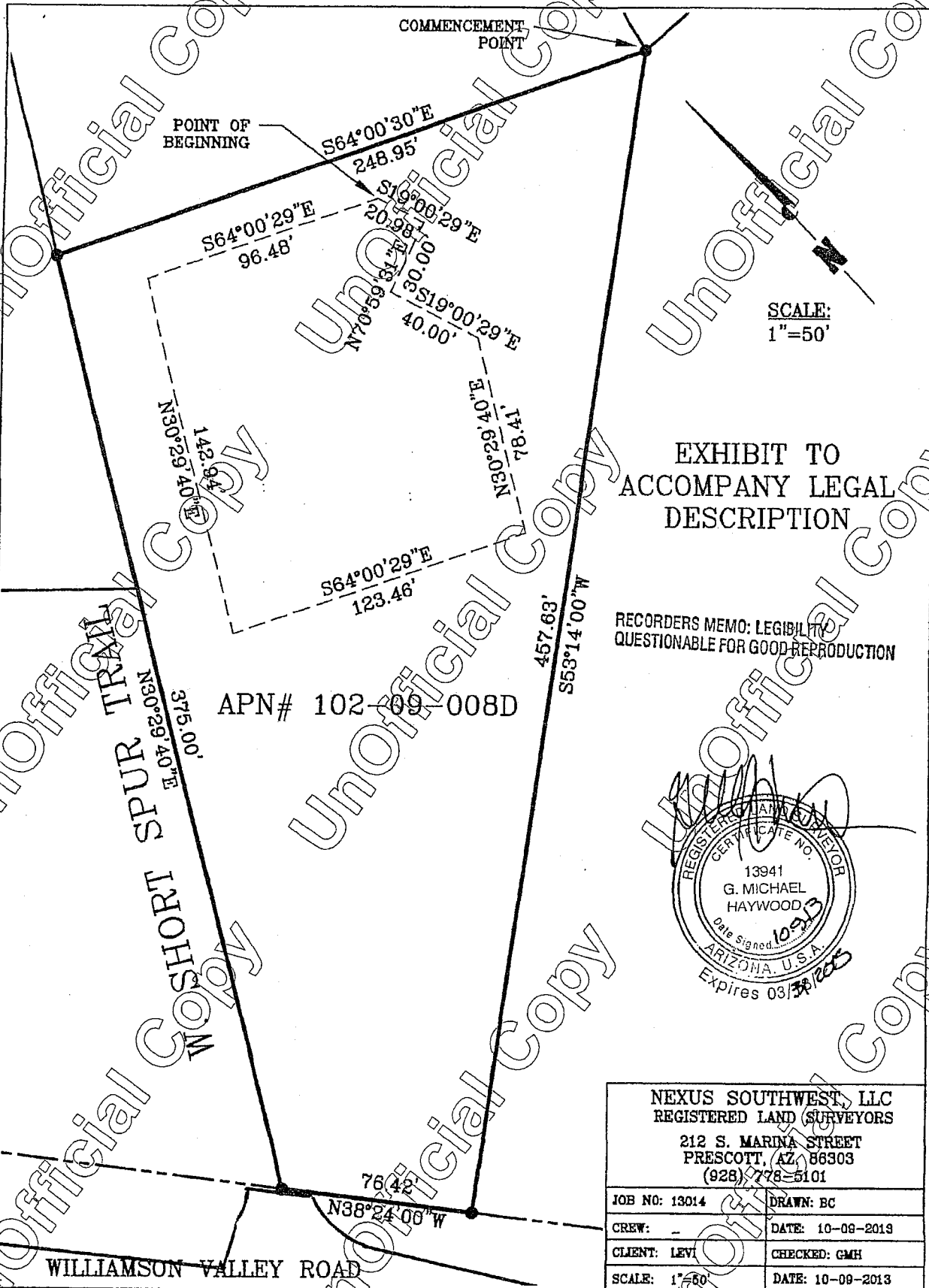
Thence, South 64°00'29" East, a distance of 96.48 feet, to the **POINT OF BEGINNING.**



ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

October 9, 2013
Job # 13-014

Granite Mtn Homesites, Short Spur Trail Well #6 Esmnt Page 2 of 2



ALSO EXCEPTED THEREFROM THE SHORT SPUR EASEMENT DESCRIPTION BEING THAT PARCEL DESCRIPTION PREPARED BY DAVA & ASSOCIATES #102-09-008D- RIGHT OF WAY CONTAINING 2986 SQUARE FEET.

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

810 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D RIGHT-OF-WAY

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

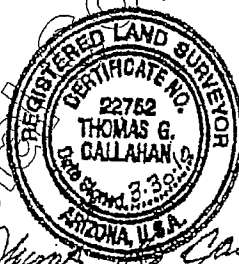
thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

thence, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the **POINT OF BEGINNING**.

This description yields 2,986 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



EXPIRES 6/30/2011

EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA

RECORDERS MEMO, LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION

NORTH
1"=60'

102-09-008H

APN
102-09-008D

WILLIAMSON VALLEY ROAD

RIGHT-OF-WAY
DESCRIBED

P.O.B.

DAY & ASSOCIATES, INC.
310 EAST UNION STREET
PRESCOTT, ARIZONA 86303
928-778-7587

555WVR2\DWG\COPY\DESCRIPTIONS\WVR-154.DWG TMS 03/01/2010
SEE 555WVR2\WORD\DESCRIPTIONS\WVR-154.DSC.DOC

SECTION 410 R1L DISTRICT

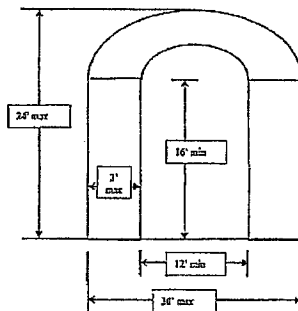
R1L DISTRICT (Residential; Single Family Limited to site built structures only) Permitted Uses:

Where no Zoning/Density District has been combined, then all provisions of Density District 10 shall prevail. (See Section 516 (Density Districts), most common ones shown in attached chart.)

- A. Dwelling unit (site built) for one (1) family on any one (1) lot.
- B. Religious institutions (in permanent site built buildings) upon Conditional Use Permit approval.
- C. Educational institutions (publicly funded) as defined in Section 301 (Definitions) (in site-built buildings), except that a charter school may not operate in a single-family residence that is located on property of less than an acre.
- D. Community parks, playgrounds or centers when part of a community plan.
- E. Public utility facilities (but not business offices nor repair or storage facilities) when necessary for serving the surrounding territory on one (1) acre or less following Administrative Review with Comment Period.
- F. When in conjunction with an approved development plan, golf courses with accessory uses such as pro shops, shelters, restrooms, etc. (but not commercial driving ranges or miniature putting courses). Subject to the performance standards set out in Section 534 (Golf Course Standards).
- G. Accessory uses and structures (concurrent with and located on the same lot with the principal uses and structures and including the following):
 - 1. Farm animals on lots of no less than seventy thousand (70,000) square feet for the convenience and pleasure of the lot occupants, not to exceed the number allowed as per the Allowed Animal Chart (Section 501 E.) except swine shall not exceed five (5) total per parcel. Stables, barns, or structures for sheltering or feeding animals must observe the same setbacks or yards as the dwelling unit.
 - a. Non-commercial keeping of chickens on lots less than seventy thousand (70,000) square feet. Subject to the following development criteria:
 - (1) Number of chickens limited to eight (8) per lot.
 - (2) Location of containment areas must be at least fifteen (15) feet from all property lines.
 - (3) Roosters are prohibited.
 - (4) All structures shall be kept in a neat and slightly manner and shall be controlled from refuse, manure, and other nuisances at all times. Storage of feed, equipment and other material related to such animals shall be entirely within an enclosed building.
 - (5) Compliance with Section 501 (Accessory Uses and Structures) B. (Accessory Buildings).
 - 2. Swimming pools in other than the front yard primary use setback area.
 - 3. Quarters for servants and/or non-paying guests attached to the dwelling (facilities for preparation of food are prohibited).

YAVAPAI COUNTY PLANNING AND ZONING ORDINANCE

4. Temporary construction offices and construction sheds and yards incidental to a recorded subdivision development or other on-site construction project for a period not exceeding twenty-four (24) months from date of plat recordation or date of issuance of construction project permit with no permits (other than electrical permits) required to install same (prohibited closer to lot boundary than is allowed for a principal building in the District).
5. Open land carnival and recreation facilities accessory to educational institutions (confined to same lot).
6. Temporary on-site sales (real estate) facility only as defined in Section 301 (Definitions) in compliance with the regulations and performance standards outlined under Section 570 (Real Estate Offices - Temporary).
7. Household pets.
8. Fences and free-standing walls.
9. Parking facilities to meet no less than the minimum requirements as provided under Section 602 (Parking and Off-Street Loading).
10. Solar installations and wind turbines for on-site use only (including NET METERING as adopted by the Arizona Corporation Commission) except that wind turbines and ground mount solar panels must meet district building height limitations above natural grade and principal setback requirements.
11. Entry feature structure to be allowed to encroach in the setbacks on parcels two (2) acres or larger, subject to the following development criteria:
 - a. The entry feature shall be over a driveway.
 - b. There shall be no more than one (1) entry feature per parcel.
 - c. The entry feature shall have a maximum height of twenty-four feet (24') and a maximum width of no more than thirty feet (30').
 - d. The entry feature shall have a minimum opening of twelve feet (12') in width and sixteen feet (16') in height.
 - e. Entry feature shall be set back one foot (1') for every one foot (1') in height.
 - f. All lighting on any entry feature shall be subject to Section 603 (Light Pollution Control).



YAVAPAI COUNTY PLANNING AND ZONING ORDINANCE

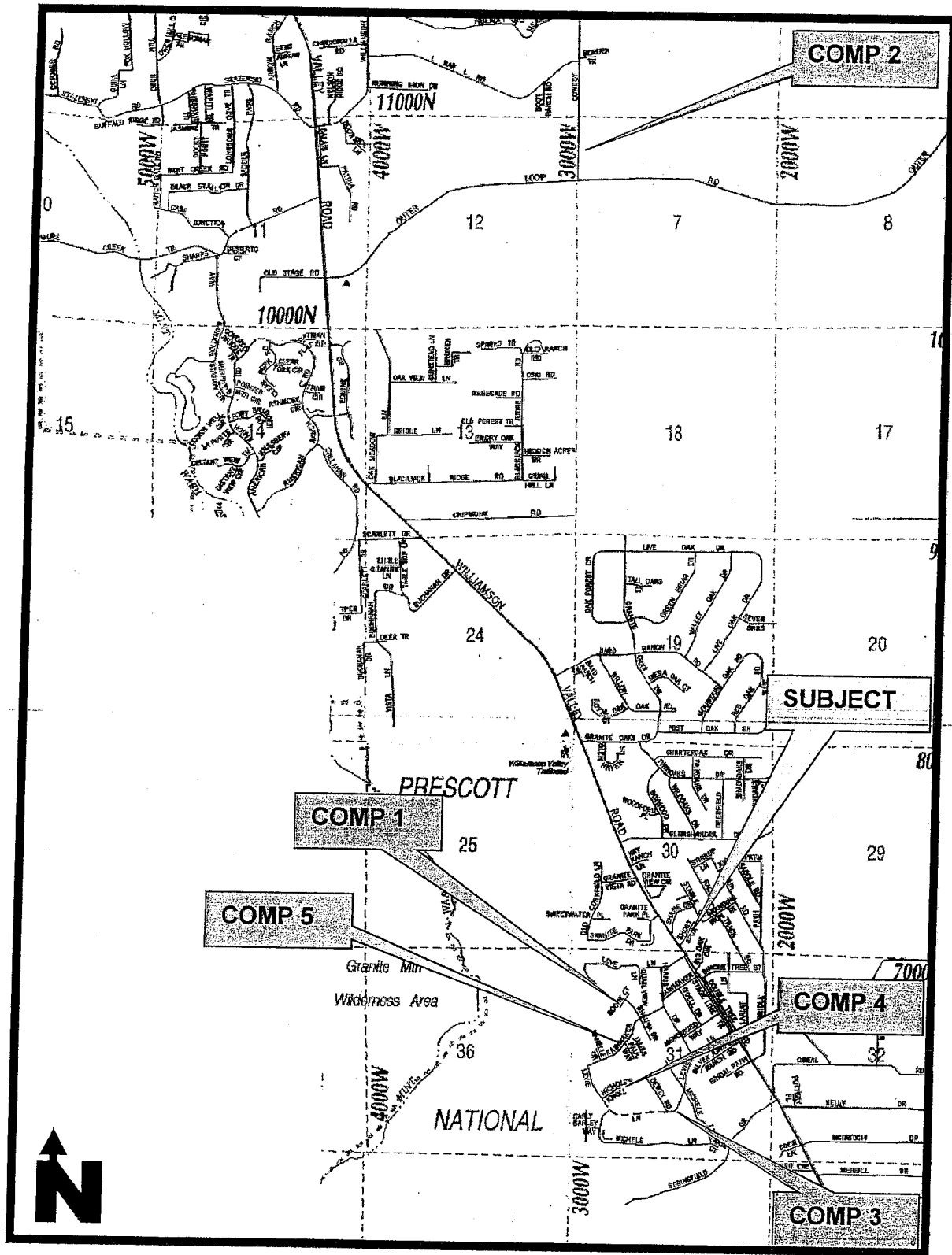
- H. Occupancy of temporary housing, including travel trailers, recreational vehicles, park models and single-wide manufactured homes during the construction of a permanent dwelling is allowed during the twenty-four (24) month period after the issuance of a building permit (and the building permit remains valid). A permit must be obtained prior to occupancy of the temporary housing. One (1) extension of time for use of a recreational vehicle, travel trailer, park model or single-wide manufactured home as temporary housing may be granted at the discretion of the Development Services Director for a period not to exceed twelve (12) months. Further extensions will require a Use Permit.
- I. Bed & Breakfast Homestays as defined under Section 301 (Definitions), subject to performance standards set out in Section 507 (Bed and Breakfasts) for Homestays with Administrative Review with Comment Period.
- J. Detached guest homes as defined under Section 301 (Definitions), subject to the performance standards set out in Section 537 (Guest Home - Detached): with a minimum parcel size of seventy thousand (70,000) square feet.
- K. Home Occupations as defined under Section 301 (Definitions), subject to approval by the Development Services Director; home occupation shall comply with the regulations and standards set out in Section 543 (Home Occupation).
- L. Secondary Médical Dwelling Variance for medical hardships as defined under Section 301 (Definitions), subject to performance criteria found in Section 525 (Dwelling – Secondary Medical) and dwelling unit to conform to applicable zoning district performance criteria.
- M. Private family cemeteries for the internment of human remains, with an Administrative Review with Comment Period subject to the following criteria:
 - 1. Notification area for the Administrative Review with Comment Period is one thousand (1,000) feet from the property boundary.
 - 2. Property owner to delineate cemetery boundary with a minimum three foot (3') fence.
 - 3. The application shall include a paper copy of a scale map, titled "Results of Survey" or similar, with the parcel area and dimensions showing existing parcel lines and all proposed easements. The map/survey shall be sized 18" x 24" (one 8.5" x 11" copy must also be submitted) or of a format acceptable to the County Recorder's Office. The legal descriptions and the map/survey shall be prepared by an Arizona Registered Land Surveyor.
 - 4. Cemetery to be recorded as a perpetual easement attached to a main parcel including ingress/egress access, within thirty (30) days of approval.
 - 5. Cemetery is prohibited from becoming a separate tax parcel and must maintain minimum zoning district requirements.
 - 6. If a private family cemetery is a primary use, no accessory uses are allowed.
 - 7. A private family cemetery must meet primary setbacks.
- N. Community Gardens as defined under Section 301 (Definitions), subject to performance criteria set out in Section 512 (Community Garden).

YAVAPAI COUNTY PLANNING AND ZONING ORDINANCE

Zoning/Density Regulations (in feet unless otherwise noted)

| Dist. | Min Lot Size in Sq. Ft. per dwelling | Min Lot Width and Depth | Min Yard Setbacks Min Building Spacing is 10 Feet all classes | | | | Max Building Height Stories / feet | | Max Lot Coverage Percent |
|-------|--------------------------------------|-------------------------|--|------|----------|----------|---------------------------------------|----|--------------------------|
| | | | Front | Rear | Interior | Exterior | | | |
| 7.5 | 7,500 | 75 | 20 | 25 | 7.5 | 10 | 2 | 30 | 50 |
| 10 | 10,000 | 80 | 20 | 25 | 7 | 10 | 2 | 30 | 40 |
| 12 | 12,000 | 90 | 20 | 25 | 7 | 10 | 2 | 30 | 40 |
| 18 | 18,000 | 100 | 30 | 30 | 10 | 15 | 2 | 30 | 25 |
| 25 | 25,000 | 130 | 30 | 30 | 10 | 15 | 2 | 30 | 20 |
| 35 | 35,000 | 145 | 40 | 40 | 20 | 20 | 2 | 30 | 15 |
| 70 | 70,000 | 200 | 50 | 50 | 25 | 30 | 2 | 30 | 15 |
| 2A | 87,120 | 225 | 50 | 50 | 25 | 30 | 2 | 30 | 10 |
| 175 | 175,000 | 300 | 50 | 50 | 30 | 50 | 2 | 30 | 10 |
| 5A | 217,800 | 325 | 50 | 50 | 40 | 50 | 2 | 30 | 10 |
| 10A | 435,600 | 500 | 50 | 50 | 50 | 50 | 2 | 30 | 5 |
| 36A | 1,568,160 | 500 | 50 | 50 | 50 | 50 | 2 | 30 | 5 |

COMPARABLE LAND SALES



COMPARABLE PHOTOS



LAND COMPARABLE #1
102-14-014 (YAVAPAI)



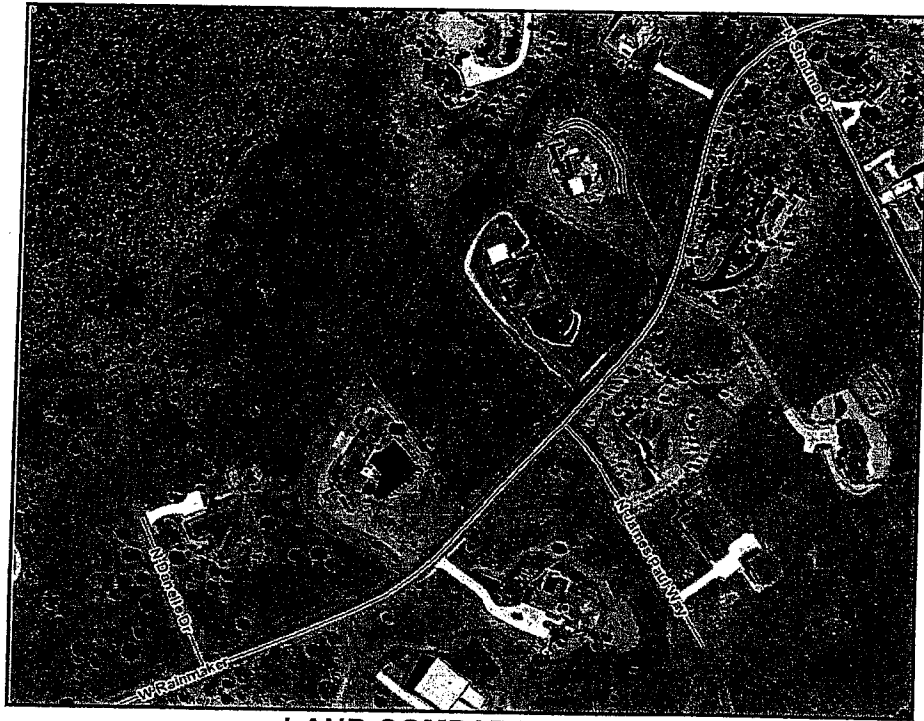
LAND COMPARABLE #2
102-01-226 (YAVAPAI)



LAND COMPARABLE #3
102-10-022 (YAVAPAI)



LAND COMPARABLE #4
102-10-081 (YAVAPAI)



LAND COMPARABLE #5
102-14-025 (YAVAPAI)

HUCK APPRAISAL OFFICE

Robert C. Huck, MAI
724 Gail Gardner Way • Prescott, Arizona 86305
Phone (928) 778-7171 • Fax (928) 778-7272
Email: hanainc@cableone.net

February 11, 2015

Granite Mountain Water Co.
c/o Paul Levie
8675 E. Laredo Drive
Prescott Valley, Arizona 86314

E-mail: pel@leviegroupp.com

Re: Appraisal proposal for land and improvements located at 2475 W. Short Spur Trail in Prescott, Arizona.

Dear Mr. Levie:

As a follow up to our recent communications, I submit the following proposal for an appraisal of the above referenced property.

| | |
|---------------------|--|
| Subject Property: | 2475 W. Short Spur Trail, Prescott, Arizona |
| APN: | Portion of 102-09-008N (Yavapai County) |
| Client: | Granite Mountain Water Co. c/o Paul Levie |
| Intended Users: | Paul Levie and/or his designees |
| Intended Use: | Documentation for corporation commission |
| Interest Appraised: | Fee Simple Estate <i>Unrestricted Easement</i> |
| Appraisal Premise: | 'As Is' |
| Purpose: | Estimate the market value of the fee simple <i>unrestricted Easement</i> interest in the property as of the date of valuation. |
| Date of Valuation: | Current, as of date of inspection |
| Reporting Option: | Appraisal Report |
| Scope: | Inspect subject property, compile and analyze data to complete a site valuation and cost and sales comparison approaches to value for the property. Changes to the scope of the appraisal may result in revisions to the fee and/or delivery date. |
| Fee: | \$2,000 |
| Delivery: | Approximately 30 days from authorization to proceed |

February 11, 2015

Mr. Levie:

Page Two

Number of Copies: 2 hard copies (Please make arrangements in advance for additional copies or a different format)
Certification: Attached
Assumptions &
Limiting Conditions: Attached

The appraisal shall be prepared for the Granite Mountain Water Co., c/o Paul Levie, my client, and is for the sole and exclusive use of Paul Levie and/or his designees to assist in their decisions regarding the subject property. I request that you seek my written authorization before releasing the reports to any other party.

The appraisal will be prepared in accordance with the Uniform Standards of Professional Appraisal Practice. Attached to this letter you will find a copy of our Statement of Limiting Conditions and Appraiser's Certification which are attached to all appraisals prepared by this office. Please review and sign the last page of each of these documents and return the executed copy to me indicating your acceptance and approval of the Limiting conditions and Appraiser's Certification.

It is generally the policy of federally insured financial institutions, to select an appraiser approved by their Board of Directors, and be responsible for the origination of the appraisal assignment. This policy has been mandated by federal regulation. By ignoring this procedure, the lender may require a second appraisal by another qualified appraiser. THE OWNER is aware of this policy and acknowledges that THE APPRAISER cannot be held responsible for the actions of the lender.

The estimated completion date of the appraisal is approximately 30 days from authorization to proceed. I can only complete the appraisal by this date if I receive from you in a timely manner any relevant information needed for the preparation of the report.

I will proceed with the preparation of this appraisal upon receipt of signed copies of this letter, Statement of Limiting Conditions and Appraiser's Certification and a retainer equal to 50% of the appraisal fee or \$1,000. The balance of the appraisal fee is due upon completion of the appraisal report.

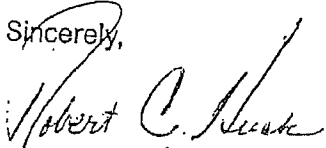
February 11, 2015

Mr. Levie:

Page Three

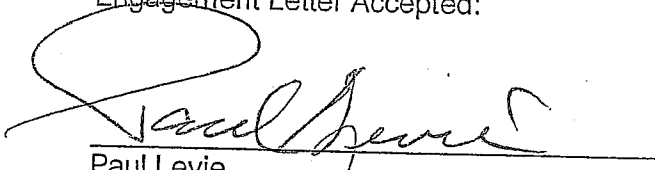
If you have any questions about anything contained in this letter or in any of the attachments, please give me a call.

Sincerely,



Robert C. Huck
Certified General Real Estate Appraiser
Certificate No. 30123

Engagement Letter Accepted:



Paul Levie
Granite Mountain Water Co.

2-23-15
Date

CERTIFICATION

(The following certification will be signed by the appraiser and included in the appraisal report.)

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
9. I have made a personal inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to Robert C. Huck, MAI, the person signing this report.
11. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

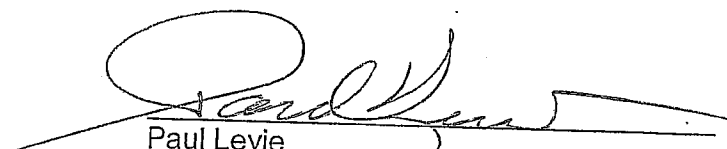
CERTIFICATION

Page Two

12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I, Robert C. Huck, have completed the continuing education program of the Appraisal Institute.
14. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
15. I hereby certify that I am competent to complete the appraisal assignment. The reader is referred to the appraiser's Statement of Qualifications contained in the Addenda.
16. All extraordinary assumptions, hypothetical conditions and limiting conditions imposed by the terms of the assignment or by the undersigned, affecting the analysis, opinions and conclusions contained in this report are contained herein.
17. No change of any item of the appraisal report shall be made by anyone other than the Appraiser, and if changed, the Appraiser shall have no responsibility for any such unauthorized change.

(The preceding certification will be signed by the appraiser and included in the appraisal report.)

I acknowledge receipt of this certification:


Paul Levie
Granite Mountain Water Co.

2-23-15
Date

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

(The following Statement of Standard Assumptions and Limiting Conditions will be included in the appraisal report)

By this notice, all persons and firms reviewing, utilizing or relying on this report in any manner bind themselves to accept these assumptions and limiting conditions. Do not use this report if you do not so accept. These conditions are a part of the appraisal report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the appraiser's function is to provide a present market value for the subject property based upon the appraiser's observations as to the subject property and real estate market. This appraisal report is an economic study to estimate value as defined in it. It is not an engineering, construction, legal or architectural study nor survey and expertise in these areas, among others, is not implied.

This is an Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

1. LIMIT OF LIABILITY: The liability of Huck Appraisal of Northern Arizona, Inc. and employees and affiliated independent contractors is limited to the client only and to the fee actually received by the appraiser (total per appraisal). Furthermore, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignments and related discussions. The Appraiser is in no way to be responsible for any costs incurred to discover or correct any deficiencies of any type present in the property, physically, financially, and/or legally. In the case of limited partnerships or syndication offerings or stock offerings in real estate, the client agrees that in case of a lawsuit (brought by the lender, partner or part owner in any form of ownership, tenant, or other party), any and all awards, settlements of any type in such suit, regardless of outcome, the client will hold the Appraiser completely harmless in any such action.
2. COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT: Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the Appraiser for the use of the client, the fee being for the analytical services only. The Bylaws and Regulations of the Appraisal Institute require each Member and Candidate to control the use and distribution of each appraisal report signed by such Member or Candidate. Except as hereinafter provided, the client may distribute copies of this

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 2

appraisal report in its entirety to such third parties as he may select; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public for use by the advertising media, public relations, news, sales or other media for public communication without the prior written consent of the Appraiser.

3. CONFIDENTIALITY: This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis as set forth in the report were prepared by the Appraiser(s) whose signature(s) appears on the appraisal report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the Appraiser and/or officer of the firm. The Appraiser and firm shall have no responsibility if any such unauthorized change is made.

The Appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designate as specified in writing except as may be required by the Appraisal Institute as they may request in confidence for ethics enforcement, or by a court of law or body with the power of subpoena.

4. TRADE SECRETS: This appraisal was obtained from Huck Appraisal of Northern Arizona, Inc. or related companies and/or its individuals of related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempt from disclosure under 4 U.S.C. 552 (b) (4). (Notify the Appraiser(s) signing report or an officer of Huck Appraisal of Northern Arizona, Inc. of any request to reproduce this report in whole or part.)

5. INFORMATION USED: No responsibility is assumed for accuracy of information furnished by the work of others, the client, his designate, or public records. We are not liable for such information or the work of possible subcontractors. Be advised that some of the people associated with Huck Appraisal of Northern Arizona, Inc. and possibly signing the report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other sources thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market related information. (It is suggested that the client consider independent verification as prerequisite to any transaction involving sale, lease, or other significant commitment of funds on the subject property.)

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 3

6. TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICE: The contract for appraisal, consultation or analytical service is fulfilled, and the total fee is payable upon completion of the report. The Appraiser(s) or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos may be included for the same purpose. Site plans are not surveys unless shown from a separate surveyor.

8. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL, HIDDEN COMPONENTS, SOIL: The Appraiser and/or firm has no responsibility for matters legal in character or nature, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the client, his designate, or as derived by the Appraiser.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek legal assistance) and such. The lender and owner should inspect the property before any disbursement of funds; further it is likely that the lender or owner may wish to require mechanical or structural inspections by a qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural or other components. We have not critically inspected mechanical components within the improvements and no representation is made herein as to these matters unless specifically stated. Unless stated, the value estimate assumes no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm; however, the Appraiser(s) do not warrant against this condition or occurrence of problems arising from soil conditions.

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 4

The appraisal is based on there being no hidden, unapparent conditions of the property site, subsoil, structures or toxic materials which would render it more or less valuable. The appraiser and firm have no responsibility for any such conditions or for any expertise or engineering to discover them. Conditions of heating, cooling, ventilation, electrical and plumbing equipment are considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. No judgment may be made by us as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment which is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above mentioned items.

The Appraiser has no responsibility for any costs or consequences arising due to the need or the lack of need for flood hazard insurance. An Agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

9. LEGALITY OF USE: The appraisal is based on the premise that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority whether local, state, federal and/or private, have been or can be obtained or renewed for any use considered in the value estimate.
10. COMPONENT VALUES: The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
11. AUXILIARY AND RELATED STUDIES: No environmental or impact studies, special market study of analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.
12. DOLLAR VALUES, PURCHASING POWER: The market value estimated, and the costs used, are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and the price of the dollar as of the date of the value estimate.
13. EXCLUSIONS: Furnishings, equipment, personal property and business operations, except as specifically indicated or if typically considered a part of the real estate, have been disregarded. Only the real estate is considered in the value estimate unless otherwise stated. In some property types, business and real estate interests and values are combined.

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 5

14. PROPOSED IMPROVEMENTS: Proposed improvements and repairs are assumed to be completed in good and workmanlike manner according to information submitted and/or considered by the appraisers. The estimate of market value is as of the date shown and assumes completion as described in the report. Completion significantly different than described may change the value estimate.

15. VALUE CHANGE, DYNAMIC MARKET, INFLUENCES, ALTERATION OF ESTIMATE BY APPRAISER: The estimated market value, which is defined in the report, is subject to change with market changes over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property physically and economically in the marketplace.

In cases of appraisals involving the capitalization of income benefits, the estimate of market value, investment value, or value in use is a reflection of such benefits and Appraiser's interpretation of income and yields and other factors derived from general and specific client and market information. Such estimates are as of the date of valuation and are subject to changing market conditions.

The "Estimate of Market Value" or "Opinion of Market Value" in the appraisal report is not based in whole or in part upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

The appraisal report and value estimate are subject to change if the physical or legal entity, or financing are different than that envisioned in this report.

16. MANAGEMENT OF THE PROPERTY: It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor super-efficient.

17. CONTINUING EDUCATION CURRENT: The Appraisal Institute conducts voluntary programs of continuing education for their designated members; MAI and SRPA Designates who meet the minimum standards of this program are awarded periodic educational certification. The MAI signing this report is currently certified under the program(s).

18. FEE: The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself. The fee for services is not contingent on any predetermined result or approved amount.

19. AUTHENTIC COPIES: The authentic copies of this report have original signatures of the appraiser(s) completing the report. Any copy that does not have the above is unauthorized and may have been altered.

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 6

20. INSULATION AND TOXIC MATERIALS: Unless otherwise stated in this report, the Appraiser(s) signing this report has (have) no knowledge concerning the presence or absence of toxic or hazardous materials and/or urea-formaldehyde foam insulation in existing improvements; if such is present the value of the property may be adversely affected. The existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser unless otherwise stated. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, radon gas, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

21. REVIEW: Unless otherwise noted herein, named review Appraiser of/from Huck Appraisal of Northern Arizona, Inc., has reviewed the report and has not necessarily inspected the subject nor market comparable properties.

22. CHANGES, MODIFICATIONS: The Appraisers and/or officers of Huck Appraisal of Northern Arizona, Inc. reserve the right to alter statements, analyses, conclusions or any value estimates in the appraisal if facts pertinent to the appraisal process become known which were unknown to us when the report was finished.

23. AFTER TAX ANALYSIS, AND/OR VALUATION: Any "after" tax income or investment analysis and resultant measures of return on investment are intended to reflect only possible and general market considerations, whether as part of estimating value or possible returns on investment at an assumed value or price paid. Note that the Appraiser(s) does not claim expertise in tax matters and advises the client and any other using the appraisal to seek competent tax advice as the Appraiser is in no way to be considered a tax advisor or investment advisor.

24. AMERICANS WITH DISABILITIES ACT: Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value marketability or utility.

25. ENVIRONMENTAL CONDITIONS: The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment.

STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

Page 7


The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report.

No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the results of the routine observations made during the appraisal process.

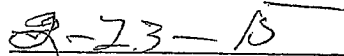
Acceptance of, and/or use of, this appraisal report by the client or any third party constitutes acceptance of the above conditions. Appraiser liability extends only to the stated client and not to subsequent parties or users of any type, and the total liability of appraiser and firm is limited to the amount of fee received by the Appraiser.

(The preceding Statement of Standard Assumptions and Limiting Conditions will be included in the appraisal report)

ACKNOWLEDGED AND ACCEPTED BY:



Paul Levie
Granite Mountain Water Co.



Date

STATE OF ARIZONA
BOARD OF APPRAISAL

BE IT KNOWN THAT

ROBERT C. HUCK

HAS MET ALL THE REQUIREMENTS AS A

Certified General Real Estate Appraiser

In accordance with Arizona Revised Statutes and on authority
of the Board of Appraisal, State of Arizona.

This registration shall remain evidence thereof unless or until
the same is suspended, revoked or expires in accordance with
provisions of law.

CERTIFICATE NUMBER

30123

EXPIRATION DATE

August 31, 2016

SHALL REMAIN PROPERTY OF ARIZONA BOARD OF APPRAISAL

In witness whereof the Arizona Board of Appraisal caused to
be signed by the Chair of the Board and the Executive Director

[Signature] 8-8-14 Date Issued
Chair, Board of Appraisal
[Signature] 8-8-14 Date Issued
Executive Director of the Board of Appraisal

SCOPE OF APPRAISAL WORK:

Experience includes the valuation of single & multi-family residential properties, subdivisions, mobile homes, condominium projects, bare land and acreage, retail, office, motel, restaurant, storage, commercial, industrial properties, easement/right of way condemnation and special purpose properties.

APPRAISAL COURSES & SEMINARS

National Association of Independent Fee Appraisers (NAIFA), "Manufactured Housing Seminar", 2/84
NAIFA, "Mini-Math For Appraisers Seminar," 6/84.
NAIFA, "Member Appraisal Examination," 11/84
Arizona School of Real Estate, "Case Studies, Rules & Regulations Seminar, 4/85
Arizona School of Real Estate, "Introduction to Tax Shelters Seminar," 4/85
NAIFA, "Depreciation Seminar," 7/85
American Institute of Real Estate Appraisers (AIREA), "Problem Solving In Today's Market", 9/85
AIREA, "Standards of Professional Practice," Course Attendance/Exam 2-3, 9/86
AIREA, "Real Estate Appraisal Principles," Challenged & Passed Exam 1A-1, 9/86
AIREA, "Basic Valuation Procedures," Challenged & Passed Exam 1A-2, 9/86
AIREA, "Capitalization Theory & Technique, Part A," Course Attendance/Exam 1B-A 7/87
AIREA, "Capitalization Theory & Technique, Part B," Course Attendance/Exam 1B-B, 6/87
AIREA, "Case Studies in Real Estate Valuation," Course Attendance/Exam 2-1, 10/87
AIREA, "Valuation Analysis and Report Writing," Course Attendance/Exam 2-2, 10/87
AIREA, Submitted "Income-Property Demonstration Appraisal Report," 9/87; Passing Grade, 1/88
AIREA, Wrote "Comprehensive Examination", February, 1988; Received Passing Grade, 3/88
Resolution Trust Corporation (RTC), Seminar "RTC Appraisal Seminar", 12/90
Appraisal Institute (AI), "Standards of Professional Practice, Part A" Attendance/Exam, 2/91
AI, "Exam Preparation Seminar/Arizona Appraisal Law," Seminar Attendance/ Exam, 3/91
AI, "Standards of Professional Practice, Part B" Course Attendance/Exam, 5/92
AI, "Subdivision Analysis", Attended Seminar, 4/93
AI, "Standards of Professional Practice, Part A", Course Attendance/Exam, 4/94
AI, "Market Analysis", Seminar Attendance, 6/94
AI, "Fair Lending & The Appraiser", Seminar Attendance, 6/94
AI, "Understanding Construction Documents", Seminar Attendance, 6/94
AI, "Understanding Limited Appraisals", Seminar Attendance, 6/94
AI, "Standards of Professional Practice, Part B" Course Attendance/Exam, 10/95
AI, "Evaluations", Seminar Attendance, 10/95
AI, "Litigation", Seminar Attendance, 11/95
AI, "Special Purpose Properties", Seminar Attendance, 11/95
AI, "Highest & Best Use Applications", Seminar Attendance, 6/96
AI, "Data Confirmation & Verification", Seminar Attendance, 6/96
AI, "The Internet & Appraising", Seminar Attendance, 10/96
AI, "Tomorrows Appraiser, Videoconference", Seminar Attendance 10/96
AI, "Environmental Law", Seminar Attendance 11/96
AI, "Eminent Domain & Condemnation", Seminar Attendance 9/97
AI, "Internet Strategies for Appraisers", Online Education 2/00

APPRAISAL COURSES & SEMINARS (Continued)

AI, "Appraising Non-Conforming Properties", Seminar Attendance 2/00
AI, "Condemnation Appraising", Seminar Attendance 5/00
AI, "Appraising From Blueprints", AI Online Education 10/00
AI, "Residential Database Training", AI Online Education 2/01
AI, "Analyzing Operating Expenses", AI Online Education 3/01
AI, "Introduction to GIS", AI Online Education 10/01
AI, "Using HP12C Calculator", AI Online Education 11/01
AI, "Standards of Professional Practice, Part C" Course Attendance/Exam 11/01
AI, "Appraising Properties with Detrimental Conditions" AI Online Education 12/01
AI, "Energy Performance & Commercial Property Values", Seminar Attendance 5/04
McKissock Schools, "Residential Construction", Seminar Attendance 6/04
McKissock Schools, "Does My Report Comply With USPAP", Seminar Attendance 6/04
McKissock Schools, "Legal Issues for Appraisers", Seminar Attendance 6/04
AI, "Appraising Motels", AI Online Education 11/04
AI, "Interest Strategies For Appraisers", AI Online Education 9/05
AI, "Apartment Appraisal", AI Online Education 1/06
Arizona School of Real Estate, "USPAP 2005 Update", Seminar Attendance 1/06
Arizona School of Real Estate, "USPAP 2006 Update", Seminar Attendance 6/06
AI, "Introduction to International Valuation Standards", AI Online Education 11/06
AI, "Marshall Valuation Service Applications", AI Online Education 1/08
AI, "What Commercial Clients Want to Know", AI Online Education 2/08
AI, "USPAP 2007 Update", Seminar Attendance 5/08
AI, "Data Verification Methods", AI Online Education 8/09
AI, "Valuation of Green Residential Buildings", AI Online Education 9/09
AI, "Valuation of Green Commercial Buildings", AI Online Education 10/09
AI, "Business Practices & Ethics", AI Online Education, 11/09
USPAP 2010-2011 7-hour Update 7/10
AI, "Appraisal Curriculum Overview – Residential", AI Online Education 9/10
AI, "Appraisal Curriculum Overview – Commercial", AI Online Education 9/10
AI, "Apartment Appraisals", AI Online Education 5/11
AI, "Appraisal of Convenience Stores", AI Online Education 8/11
AI, "Analyzing Distressed Properties", AI Online Education 10/11
USPAP 2012-2013 7-hour Update 4/12
AI, "Business Practices & Ethics", AI Online Education 2/14
Arizona Appraiser's State Conference, "USPAP 2014-2015 Update" Seminar Attendance 3/14
AI, "Advanced Internet Search Strategies", AI Online Education 6/14
AI, "Small Hotel/Motel Valuation", AI Online Education 7/14

PARTIAL CLIENT LIST

American Bank
Babbitt Brothers Trading Company
Bank of America (Including banks acquired by Bank of America)
Bayview Financial
California Bank & Trust
Chase Bank (Including banks acquired by Chase)
City Governments (Cottonwood, Page, Prescott, Prescott Valley, Williams, et.al.)
Commercial Capital Bank
Community First Bank
Compass Bank (Including banks acquired by Compass Bank)
Country Bank
Desert Hills Bank
Downey Savings
Farm Credit Services
Fain Family/Fain Signature Group
First American Title Company
First National Bank of Amarillo, Texas
First State Bank
Heritage Bank
Home National Bank
Irwin National Bank
Laventhol & Horwath
M & I Bank (Including banks acquired by M & I Bank)
Mission Bank
National Bank of Arizona (Including banks acquired by National Bank)
North American Savings Bank
Northern Trust Bank
Peabody Mining Company
Peotone Bank & Trust
Plains Commerce Bank
Regions Bank
Resolution Trust Corporation (RTC)
State of Arizona
Summit Bank
Temecula Valley Bank
United States Government,
 Government Services Administration
 U.S. Dept. of Interior, Bureau of Indian Affairs
 U.S. Dept. of Interior, National Park Service
U.S. Post Office
U.S. Veterans Administration
Valley Bank
Wells Fargo Bank (Including banks acquired by Wells Fargo Bank)
Western Bank
Yavapai County

QUALIFICATIONS OF ROBERT C. HUCK, MAI
Certified General Real Estate Appraiser, Certificate No. 30123

EDUCATION:

Arcadia High School; Phoenix, AZ, 1965 - 1969, High School Diploma
Southern Methodist University; Dallas, TX 1969 - 1973. Graduated Cum Laude with BA in Economics. Phi Beta Kappa. Extensive course work in Business and Investments.
University of Adelaide; Adelaide, South Australia, 1974. Post Graduate courses in Economics.
Arizona Department of Real Estate: Passed Licensing Exam, 5/81.
Appraisal Institute: Received MAI Designation, July, 1988
State of Arizona Board of Appraisal

EXPERIENCE:

Owner and President of Huck Appraisal of Northern Arizona, Inc., 724 Gail Gardner Way, Prescott, Arizona; May 1997 to Present.
Independent Fee Appraiser, Appraisal Consultants (formerly Russell L. Parker Company), 814 West Gurley Street, Prescott, AZ; July 1984 to May 1997.
Independent Fee Appraiser, RAM Enterprises, Prescott, AZ; 1983 to July 1984.
Real Estate Sales, Sandretto Properties, Inc., Prescott, AZ; 1981-1983; Commercial/Indust. Sales
Owner/President of Squires, Inc., DBA the Two Squires Restaurant, Prescott, Arizona; 1979-1981

PROFESSIONAL DESIGNATIONS

Member, Appraisal Institute (MAI Certificate #7882)
Certified General Real Estate Appraiser, State of Arizona; (Certificate Number 30123)

ORGANIZATION MEMBERSHIPS

Member, Phoenix Chapter, Appraisal Institute
Member, Prescott Kiwanis Club
Member, Prescott United Methodist Church

COURT TESTIMONY

Qualified as an expert witness: Yavapai County Superior Court, Division II
Qualified as an expert witness: U.S. Bankruptcy Court, Phoenix, AZ
Qualified as an expert witness: Mohave County Superior Court
Qualified as an expert witness: Coconino County Superior Court
Qualified as an expert witness: Colorado District Court, Garfield County, CO
Qualified as an expert witness: California District Court, Orange County, CA



Byron Jaspers
Director

OFFICE OF THE
PUBLIC WORKS DEPARTMENT

Road Division Engineering Division Solid Waste Division Emergency Management
1100 Commerce Drive
Prescott, Arizona 86305
Phone (928) 771-3183
FAX (928) 771-3167

February 27, 2013

Jonathan M. and Shauna L. Duke
2475 W. Short Spur Trail
Prescott, AZ 86305

RE: Assessor's Parcel No. 102-09-008D

Dear Mr. & Mrs. Duke:

As you may be aware, Yavapai County will be constructing a four lane roadway corridor to meet the current and future traffic needs of the Williamson Valley area. Prior to roadway construction a right of way corridor sufficient to accommodate the improvements must be secured. Yavapai County would like to purchase roadway right of way in the form of an Easement, and a Drainage Easement across a portion of your property.

There are also some locations where a Temporary Right of Entry will be needed to access properties in order to accommodate construction activities including any or all of the following: a) remove a portion of the existing driveway access and replace it in like kind; b) reconstruct portions of road intersections in order to match new improvements on Williamson Valley Road; c) construct or modify drainage facilities. You are one of the property owners from whom we would like to obtain a temporary right of entry. The temporary right of entry will begin at the start of the construction project and terminate upon completion of the project. **Please Note: Construction activities do not include storage of construction equipment or materials on your property.**

I am enclosing a Purchase Agreement along with an Appraisal of value which was done for the previous owner. Please review the appraisal thoroughly and contact us with any questions you may have. After the Purchase Agreement is accepted and approved by the Board of Supervisors, we will open an escrow. Yavapai County will pay all escrow fees and costs associated with the purchase.

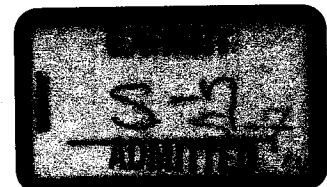
If acceptable, please sign the Purchase Agreement and return it in the enclosed self-addressed stamped envelope. We look forward to your response on or before March 27, 2013. Should you have any questions or concerns, please feel free to call me at 928-771-3183.

Very truly yours,

Linda K. Hippe
Right of Way Specialist

lkh
Enc.
cc:

Byron Jaspers, Director



APPRAISAL CONSULTANTS, INC.



2475 SHORT SPUR TRAIL,
PRESCOTT, ARIZONA
YAVAPAI COUNTY ASSESSOR PARCEL NUMBER
102-09-008D

PREPARED BY
RUSSELL L. PARKER, MAI
APPRAISAL CONSULTANTS, INC.
5824 Cinnamon Drive
Prescott, Arizona 86305
Phone: 928-445-5541
Fax: 928-778-3460
E-mail: aci@cableone.net

Appraisal Consultants, Inc. File C-11001H- Jordan- 102-09-008D

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APPRAISAL CONSULTANTS, INC

Real Estate Appraisers & Consultants

1-800-997-5541
acn@cableone.net

5824 Cinnamon Drive, Prescott, Arizona 86305
928-445-5541 - Facsimile 928-778-3460

Russell L. Parker, MAI

Yavapai County Public Works Department

February 9, 2012

Attn: Ms. Linda Hippe
Right of Way Specialist
1100 Commerce Drive
Prescott, Arizona 86305

Re: A complete appraisal, in a summary report of the property located at 2475 Short Spur Trail, Prescott, Arizona. Yavapai County Assessor Parcel 102-09-008D (Jordan).

Dear Ms. Hippe:

In accordance with our agreement, I have revised the appraisal of the above referenced property based upon revised right of way legal descriptions. The purpose of the revised appraisal is to estimate the total compensation due the owners for a partial acquisition of the property by Yavapai County for right of way purposes. The analysis is accordance with the 'State Rule' as defined in this report. The function of the appraisal is to assist in the acquisition of portions of a property in conjunction with Yavapai County's Williamson Valley Road - North Project.

The results of the appraisal are reported in a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraisers' file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraisers are not responsible for unauthorized use of this report.

The "As Is" value, pertains to the value of the subject property, as it currently exists (vacant land), on the date of valuation. By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following Total Difference, for the subject parcel as of January 17, 2012 to be:

FEE SIMPLE
FOUR THOUSAND ONE HUNDRED FIFTY-TWO DOLLARS
(\$4,152.00)

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the temporary construction easement (TCE), for the subject parcel as of January 17, 2012 to be:

FIVE HUNDRED ELEVEN DOLLARS
(\$511.00)

February 9, 2012
Ms. Linda Hippe
Page Two

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the drainage easement, for the subject parcel as of January 17, 2012 to be:

ONE THOUSAND FOUR HUNDRED FORTY-ONE DOLLARS
(\$1,441)

This letter must remain attached to the report, which contains 50 pages plus related exhibits, in order for the value opinion set forth to be considered valid.

It is the appraiser's conclusion that the subject property has good marketability. Accordingly, it is estimated that with aggressive, region-wide marketing, the property could be expected to sell within one year (see marketing section of the report).

The property was inspected by Russell L. Parker, MAI and the appraisal was developed by Mr. Parker. If you have any questions please contact Mr. Parker at 928-445-5541.

This report was prepared for and my professional fee billed to Yavapai County. It is intended only for use by your internal management, your auditor, and appropriate regulatory authorities. It may not be distributed to or relied upon by other persons or entities without our written permission.

I hereby certify that I have no interest, present or prospective, in the property appraised, and that my employment is in no way contingent upon the appraised value of the property. I further certify that to the best of my knowledge and belief, the statements and opinions contained in the appraisal are correct, subject to the limiting conditions expressed herein.

Respectfully submitted,



Russell L. Parker, MAI
State of Arizona Certified General
Real Estate Appraiser # 30143
aci@cableone.net
928.445.5541

APPRAISAL REPORT

OF

2475 SHORT SPUR TRAIL,
PRESCOTT, ARIZONA

YAVAPAI COUNTY ASSESSOR PARCEL NUMBER

102-09-008D

OWNERSHIP

JAMES E. JORDAN
2475 SHORT SPUR TRAIL, PRESCOTT, ARIZONA

DATE OF VALUATION
January 17, 2012

DATE OF REPORT
February 9, 2012

Prepared for:

YAVAPAI COUNTY PUBLIC WORKS DEPARTMENT

ATTN: MS. LINDA HIPPE
RIGHT OF WAY SPECIALIST
1100 COMMERCE DRIVE
PRESCOTT, ARIZONA 86305

Prepared by:

RUSSELL L. PARKER, MAI
CERTIFIED GENERAL REAL ESTATE APPRAISER
CERTIFICATE NO. AG30143

OF

APPRAISAL CONSULTANTS INC.

5824 CINNAMON DRIVE,
PRESCOTT, ARIZONA 86305
928-445-5541
aci@cabicons.net

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. I have made a personal inspection of the property that is the subject of this report.
11. No one provided significant real property appraisal assistance to the person signing this certification.
12. The reported analyses, opinions, and conclusions were developed, and the report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.
13. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
14. As of the date of this report, I Russell L. Parker, MAI, have completed the continuing education program of the Appraisal Institute.

CERTIFICATION

Page 2

15. No change of any item of the appraisal report shall be made by anyone other than the Appraiser, and if changed, the Appraiser shall have no responsibility for any such unauthorized change.
16. The possession of this report or any copy thereof does not imply the right of publication, nor may this report be used by anyone other than the client without the consent of the Appraiser.

VALUE ESTIMATE

The "As Is" value, pertains to the value of the subject property, as it currently exists (vacant land), on the date of valuation. By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following Total Difference, for the subject parcel as of January 17, 2012 to be:

FEE SIMPLE
FOUR THOUSAND ONE HUNDRED FIFTY-TWO DOLLARS
(\$4,152.00)

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the temporary construction easement (TCE), for the subject parcel as of January 17, 2012 to be:

FIVE HUNDRED ELEVEN DOLLARS
(\$511.00)

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the drainage easement, for the subject parcel as of January 17, 2012 to be:

ONE THOUSAND FOUR HUNDRED FORTY-ONE DOLLARS
(\$1,441)

I hereby certify that I have no interest, present or prospective, in the property appraised, and that my employment is in no way contingent upon the appraised value of the property. I further certify that to the best of my knowledge and belief, the statements and opinions contained in the appraisal are correct, subject to the limiting conditions expressed herein. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of the loan.

CERTIFICATION

Page 3

The undersigned hereby acknowledge that he has the appropriate education and experience to complete the assignment in a competent manner. The reader is referred to the appraisers' Statement of Qualifications.

Respectfully submitted,



Russell L. Parker, MAI
State of Arizona Certified General
Real Estate Appraiser # 30143
aci@cableone.net
928.445.5541

Date: February 9, 2012

SUMMARY OF CONCLUSIONS

PROPERTY ADDRESS: 2475 Short Spur Trail, Prescott, Arizona 86305
 PROJECT: Williamson Valley Road - North Project
 LEGAL DESCRIPTION: An irregular shaped metes and bounds parcel lying in the W2SW4SE1/4 of Section 30, Township 15 North, Range 2 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.
 ASSESSOR'S PARCEL #: 102-09-008D (Yavapai)
 PROPERTY TYPE: Residential
 EFFECTIVE DATE OF VALUE: January 17, 2012
 DATE OF REPORT: February 9, 2012
 ZONING: RI - 35
 PARCEL SIZES AND TAKING:

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

FLOOD PLAIN STATUS: According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps for Prescott, Community Panel Number 04025C1670G, dated September 3, 2010, the site is situated in Zone X. Zone X is defined as an area determined to be outside the 500-year flood plain.

HIGHEST AND BEST USE

AS VACANT: Speculative holding in anticipation of residential development
 AS IMPROVED: Single Family Residence and related site improvements.

VALUATION ESTIMATES

| | | | |
|----|--|---|-------------|
| 1 | Value of Larger Parcel before Take: | = | \$64,015 |
| 2 | Less: Value of Part Taken: | = | \$2,986 |
| 3 | Equals: Remainder Value before Take: | = | \$61,029 |
| | | | \$61,029 Rd |
| 4 | Less: Remainder Value after Take: | = | \$61,029 |
| 5 | Equals: Damages: | = | \$0 |
| 6 | Or (4) Minus (3) Equals: Special Benefits: | = | \$0 ** |
| 7 | Net Damages: | = | \$0 * |
| 8 | Plus: Value of Part Taken: | = | \$2,986 |
| 9 | Equals: Total Difference: | = | \$2,986 |
| 10 | Depreciated Value of site Improvements: | = | \$1,166 Rd |
| 11 | Total Estimated Value Taken: | = | \$4,152 |

** No special benefits are created - differences due to method of adjustment - special benefits may not be used to offset value of part taken or damages

* May not be less than 0

TCE: \$511.00
 DRAINAGE EASEMENT: \$1,441.00

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PREMISES OF THE APPRAISAL

PURPOSE OF THE APPRAISAL

The purpose of the appraisal is to estimate the market value "As Is" of the fee simple fee interest in the subject property, on the date of valuation. Furthermore, the purpose is to estimate the total compensation due the owners for a partial acquisition of the property by Yavapai County for right of way purposes.

The following components of the subject parcel are addressed:

- (1) The fee simple interest in the property before the take;
- (2) The fee simple interest in the parcel to be taken
- (3) The fee simple interest in the remainder parcel before the take;
- (4) The fee simple interest in the remainder parcel after the take;
- (5) The indicated damages, if any, for the parcel;
- (6) The special benefits, if any, for the parcel; and
- (7) The total difference, as defined elsewhere in this report, for the parcel.

INTENDED USE OF THE APPRAISAL

The intended use of the appraisal is for right of way acquisition by Yavapai County, Arizona.

INTENDED USER OF THE APPRAISAL

The appraisal report is intended to be used by Yavapai County Arizona.

DEFINITION OF MARKET VALUE

"Market value" means the most probable price estimated in terms of cash in United States dollars or comparable market financial arrangements that the property would bring if exposed for sale in the open market, with reasonable time allowed in which to find a purchaser, buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable.¹

¹ Arizona Revised Statute 28-7091

DEFINITION OF "AS IS" PREMISE

"Market Value as is" on appraisal date means an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date the appraisal is prepared.²

PROPERTY RIGHTS APPRAISED

The rights to the property being appraised are in the fee simple estate.

The fee simple estate is defined as:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.³

EFFECTIVE DATE OF VALUE

The effective date of value for the property "As Is" is January 17, 2012, which is the most recent date the subject property was viewed.

DATE OF THE REPORT

The date of the report is February 9, 2012.

APPRAISAL DEVELOPMENT (SCOPE OF WORK)

The appraisal of the subject property is a complete appraisal reported in a summary format.

The appraisal of the subject property is intended to be a complete valuation analyses; however, due to the nature of the property, the Sales Comparison Approach is the only approach to value that is considered applicable. The Cost Approach is inappropriate approach to value for the ROW taking as there are no structures in proximity to that portion of the parcel being taken, which are considered affected by the take.

Therefore, the analysis will focus upon valuation of the land as vacant. The appraisal is intended to employ the appropriate valuation procedures associated with the taking process. However, there are site improvements which will be affected. The value of these improvements will be estimated by using the depreciated costs associated with each type of site improvement.

The appraiser has personally viewed the subject property on site and diagrammatically. The appraiser has also inspected the subject neighborhood and market area, and gathered information about general economic and real estate trends in the neighborhood and market. Information concerning the supply of and demand for such properties in this market has also been gathered and analyzed.

² Appraisal Policies and Practices of Insured Institutions and Service Corporations, Federal Home Loan Bank Board, "Final Rule", 12 CFR Parts 563 and 571, December 21, 1987.

³ *The Dictionary of Real Estate Appraisal, Fifth Edition*, Appraisal Institute, (Chicago, IL, 2010), page 78.

Data collection includes interviews with real estate brokers, agents, managers, buyers and sellers active in the subject market. In addition, we have obtained data from the First American Real Estate Solutions affidavit reporting service for Yavapai County, and public officials at the City of Prescott, and Yavapai County.

After making estimates of the value of the property using appropriate approach to value, a final value conclusion is made.

DEFINITION OF LARGER PARCEL

The appraisal concept of the 'larger parcel' is an analytical premise unique to the field of eminent domain valuation. The larger parcel is defined as:

*"In governmental land acquisitions, the tract or tracts of land that are under the beneficial control of a single individual or entity and have the same, or an integrated, highest and best use. Elements for consideration by the appraiser in making a determination in this regard are contiguity, or proximity, as it bears on the highest and best use of the property, unity of ownership, and unity of highest and best use. In most states, unity of ownership, contiguity, and unity of use are the three conditions that establish the larger parcel for the consideration of severance damages. In federal and some state cases, however, contiguity is sometimes subordinated to unitary use."*⁴

In studying the subject property, all of these elements are present in the determination of the larger parcel. Assessor Parcel number 102-09-008D contains approximately 64,015 square feet or 1.47 acres. The parcel is improved with a residence which was constructed in 1978, a single car garage and a single car carport, and various site improvements. Yavapai County provided a legal description for the proposed portion of the parcel to be taken. The following table provides the estimated size of the larger parcel, the portion to be taken:

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

DEFINITION OF TOTAL DIFFERENCE

The term 'total difference' in this report will refer to the appraiser's estimate of the market value of the part taken *plus* any damages to the remainder as the result of the taking. The basic premise is that the owner (of the property to be taken for public use) must be compensated for the *taking of the land*, as opposed to being compensated for the *land taken*.⁵

While this report will also address the '*special benefits*' that may accrue to the property as the result of the taking, any special benefits identified may not be used to reduce the damages done to the property as the result of the taking. Therefore, special benefits, if any, do not contribute to the estimate of the total difference.

The total difference often forms the basis for '*just compensation*'. Just compensation is defined as:

⁴ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, IL, 2010 page 110.

⁵ Beaman v. Ross, 167 U.S. 548, 17 S. CT 266.

In condemnation, the amount of loss for which a property owner is compensated when his or her property is taken. Just compensation should put the owner in as good a position as he or she would be if the property had not been taken.⁶

While the total difference is often used in the ascertainment of just compensation, it is noted that the appraiser's function is to estimate market value - no more, no less. The appraiser does not estimate just compensation directly; this is the duty of the trier of fact.

THE STATE RULE

In the valuation of taking for public use, two general rules predominate, and are widely used, sometimes with modification to ensure compliance with applicable statutory provisions. The two general rules are the "before and after rule" (often referred to as the *federal rule*) and the "value of the take plus damages rule" (or the *state rule*). In Arizona the state rule is best suited in the valuation of the subject property.

The procedural steps in applying the state rule are:

| | | |
|----|-------------------------------------|-----------|
| 1. | Value of Larger Parcel Before Take: | \$ |
| 2. | Value of Part Taken: | - \$ |
| 3. | Remainder Value Before Take: | = \$ |
| 4. | Remainder Value After Take: | - \$ |
| 5. | Damages: | = \$ * |
| 6. | Special Benefits: | [\$] ** |
| 7. | Net Damages: | - \$ * |
| 8. | Value of Part Taken: | + \$ |
| 9. | Total Difference: | = \$ |

*May not be less than 0.

**May not be used to offset value of part taken or damages.

It is noted that in the application of the state rule as used here, benefits may not be used to offset either the value of the part taken or the damages to the remainder. The results of the computations made in 5 (damages) and Step 7 (net damages) can never be less than zero.⁸

These steps will be followed in the determination of the value of the total difference of the subject property before and after the take.

⁶ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, IL, 2010 page 106.

⁷ Real Estate Valuation in Litigation/J.D. Eaton, Second Edition, Appraisal Institute, Chicago, IL, 1995, p. 22.

⁸ Real Estate Valuation in Litigation/J.D. Eaton, Second Edition, Appraisal Institute, Chicago, IL, 1995, p. 30.

SPECIAL ASSUMPTIONS AND LIMITING CONDITIONS

In addition to the Standard Assumptions and Limiting Conditions contained in the Addenda of this report, Special Assumptions and Limiting Conditions, on which the conclusions herein are based, are outlined below:

- The appraiser was provided a copy of a commitment for title insurance from Lawyers Title Insurance Company. The parcel size has been taken from the Yavapai County Assessor records and the recorded legal description as well as the existing legal description provided in the commitment for title insurance.
- The size(s) of the overall parcel, the existing roadway, the proposed right-of-way (the parts to be taken), and the remainder parcel are taken from the Yavapai County Assessor records and or provided by Dava & Associates Planning, Engineering, and Surveying. It is assumed that this data is accurate; however, the appraiser has not conducted an independent survey.
- The appraiser was not provided with a soil or sub-soil report. It is assumed that if these reports had been provided, they would not indicate atypical soil conditions that would adversely affect the development of the parcel.
- It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.
- It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report. It is further assumed that any variance required due to setbacks or wall heights will be granted.
- The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
- Furthermore, this appraisal is prepared under the condition that any increase or decrease in market value of the real property, prior to the valuation, caused by the public improvement for which the property is to be acquired, or the likelihood that the property will be acquired, will be disregarded in determining the market value of the property and the total estimated compensation due.
- Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraisers. The appraisers have no knowledge of the existence of such materials on or in the property. The appraisers, however, are not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, radon gas, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

PRESENTATION OF DATA

PROPERTY IDENTIFICATION AND LEGAL DESCRIPTION

The subject property is located at 2475 Short Spur Trail, Prescott, Arizona. The property is identified in the Yavapai County Assessor's Office as Assessor's parcel number 102-09-008D.

The legal description is as follows:

All that portion of the Southeast quarter of Section 30, Township 15 North, Range 2 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the Southwest corner of Lot 56, EQUESTRIAN ESTATES, according to the plat of record in Book 13 of Maps, Page 94, records of Yavapai County, Arizona,

Thence North 85 degrees, 45 minutes, 30 seconds West, 400.00 feet;

Thence North 14 degrees, 30 minutes East, 400.27 feet;

Thence North 85 degrees, 36 minutes West, 250.09 feet to the Southwest corner of the Wilkins Tract and the TRUE POINT OF BEGINNING.

Thence South 53 degrees, 14 minutes West, 457.63 feet to a point on the Northeasterly right-of-way line of Williamson Valley Road, as recorded in Book 188 of Deeds, Page 300, records of Yavapai County;

Thence North 38 degrees, 24 minutes West, 78.42 feet along said right-of-way line;

Thence North 30 degrees, 29 minutes, 40 seconds East, 375.00 feet;

Thence South 64 degrees, 00 minutes, 30 seconds East, 248.95 feet to the TRUE POINT OF BEGINNING.

There are no items of personal property, FF&E, going concern or intangibles associated with the subject property.

STATEMENT OF OWNERSHIP OF THE APPRAISED PROPERTY

According to records found in the office of the Yavapai County Assessor, title to the subject property is currently held in the name of:

James E. Jordan
2475 Short Spur Trail
Prescott, Arizona 86305

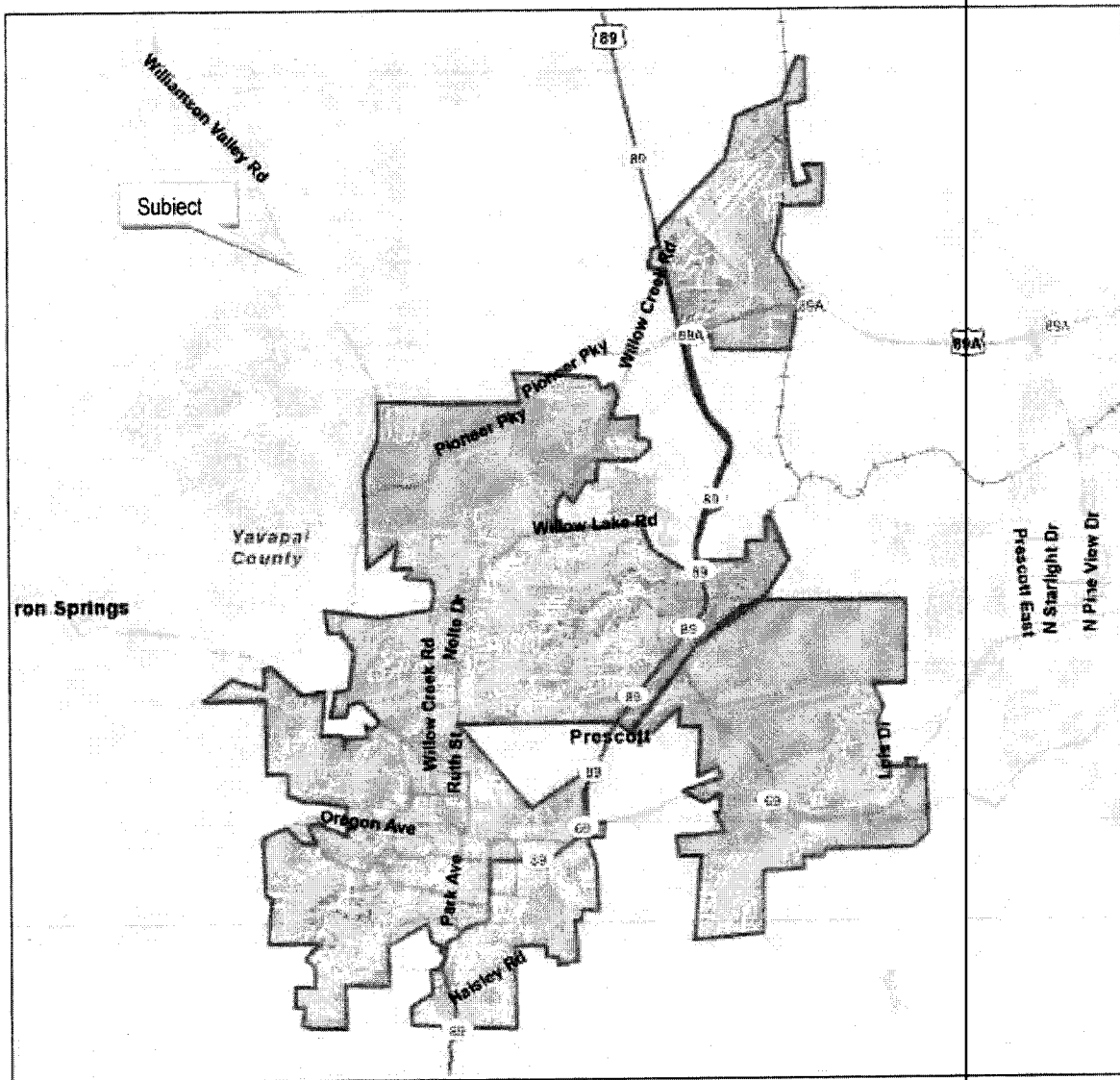
ECONOMIC HISTORY OF THE SUBJECT PROPERTY

The subject property has been under the same ownership since June 1981 as recorded in Book 1388 page 567, of official records for Yavapai County, Arizona. According to public records there have been no sales or listings of the subject property in the previous three years.

AREA DESCRIPTION

The City of Prescott is located about 96 miles north of Arizona's state capital, Phoenix. Unlike Phoenix's desert environment, Prescott is nestled in the northern slopes of the Bradshaw Mountains in north central Arizona at an elevation of about 5,354 feet. The Bradshaw range is part of a chain of mountains which cross Arizona from east to west across the middle of the state.

AREA MAP



Established in 1864 as a small mining town, Prescott is one of the state's oldest communities. The town was incorporated in 1881, was the first Territorial Capitol of Arizona, and is now the county seat for Yavapai County. Prescott's relatively long and full heritage for a southwestern town is visible in its wide range of architecture and mixture of land planning. The largest inventory of restored historical buildings in Arizona exists in Prescott. Prescott is linked to Interstate Highway 40 and 10 by US Highway 89; and, to Interstate 17 by Arizona Highway 69. Air transportation is available by private, chartered, or one commercial airline. Truck freight and buses are also available.

According to the 1990 Census of Population and Housing the population estimate for Prescott was 26,592 (revised in 1/95 from 26,455) people. When compared with the 1980 census figure of

20,080, a growth rate of $\pm 2.85\%$ per year can be calculated. However, the 1985 Special Census produced a population estimate of 24,385. This estimate indicates a 4.0% growth rate from 1980 to 1985, with only a 1.75% annual rate of growth from 1985 to 1990.

Furthermore, a portion of the growth during this five year period can be traced to the 1987 annexation of Yavapai Hills and the Ranch at Prescott, two large residential subdivisions located east of downtown Prescott. When the population growth attributable to this annexation is considered, the actual rate of growth within the Prescott City Limits during the latter half of the 1980's was around 1.4%.

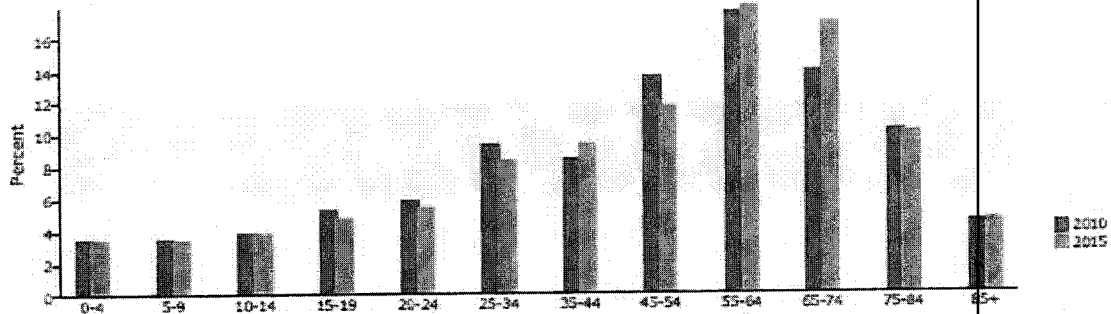
The 1995-population estimate for Prescott was 30,640 according to the 1995 special census conducted in October 1995. This estimate indicates an increase in population of 2.87% per year since 1990. This rate of growth is greater than the level of population increase concluded for the Prescott City Limits during the previous five and ten year periods. The 2000 Census figures indicate that the population estimate is 33,938, an increase of 27.62% since 1990. The following population data was compiled from ESRI forecasts for 2010-2015 for Prescott.

| Summary | 2000 | 2010 | 2015 |
|--|-------------|--------------|-----------------|
| Population | 31,930 | 40,494 | 42,710 |
| Households | 15,098 | 18,683 | 19,102 |
| Families | 8,960 | 10,434 | 10,925 |
| Average Household Size | 2.11 | 2.13 | 2.14 |
| Owner Occupied Housing Units | 9,848 | 11,891 | 12,669 |
| Renter Occupied Housing Units | 5,250 | 6,192 | 6,432 |
| Median Age | 47.8 | 52.5 | 54.8 |
| Trends: 2010 - 2015 Annual Rate | Area | State | National |
| Population | 1.07% | 1.87% | 0.76% |
| Households | 1.10% | 1.83% | 0.78% |
| Families | 0.92% | 1.65% | 0.64% |
| Owner HHs | 1.28% | 1.94% | 0.82% |
| Median Household Income | 3.41% | 2.85% | 2.36% |

The City of Prescott, the seat of Yavapai County, is the largest urban area within the county. The city's growth is projected to be 2.31% for the next five years. More than 100,000 people reside in the Tri-city area, which includes Prescott, Prescott Valley and Chino Valley. The majority of these residents live within a 10-mile radius of the Prescott Municipal Airport.

Prescott has become a popular retirement community. In fact, Yavapai County's percentage of population 65 years or older is around 28.8%. The high percentage of retired persons has had a significant impact upon the economy, growth, and government of Prescott, and is expected to remain the case in the future. In fact, Yavapai County has become a prime area for retirement and elderly health care facilities.

Population by Age



According to the 1980 census, there were 7,971 housing units in Prescott as compared with 4,748 in 1970, an increase of 67.9% or 5.3% compounded annually. The 1990 census for Prescott reported an existing inventory of 13,476 (changed 1/95 from 13,393) housing units. This indicates a growth rate during a ten-year period (1980 to 1990) of 5.39% per year. The census also indicated a 14.3% vacancy factor that included seasonal and occasional recreational use. The 1995 special census places the existing inventory at 15,321 housing units. The housing growth rate between 1990 and 1995 was approximately 2.6%. Between 1995 and 2000 the annual growth rate for housing was $\pm 2.274\%$. This is slightly below that of the 1990 to 1995 period. Overall the annual housing growth rate for the 1990-2000 period was $\pm 2.5\%$. This rate increased to 3.65% between 2000 and 2007. The projected growth for 2010-2014 is based upon an annual growth rate of 2.52%.

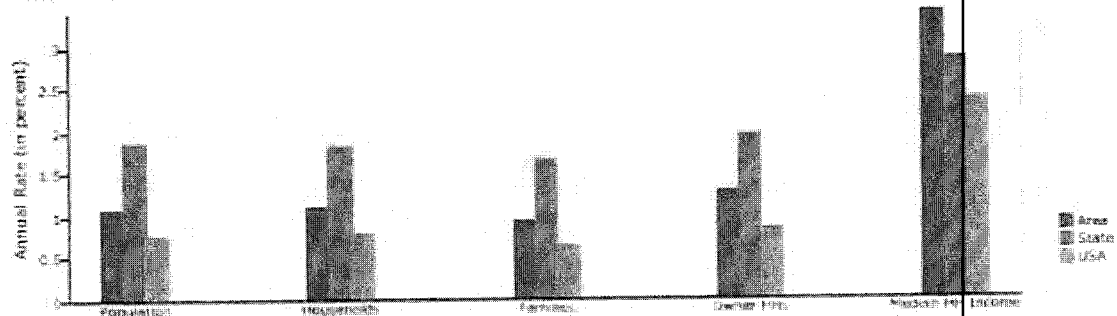
Currently, 56.3 percent of the 21,132 housing units in the market area are owner occupied; 29.3 percent, renter occupied; and 14.4 percent are vacant. In 2000, there were 17,144 housing units- 57.4 percent owner occupied, 30.6 percent renter occupied and 11.9 percent vacant. The annual rate of change in housing units since 2000 is 2.06 percent. Median home value in the market area is \$191,642, compared to a median home value of \$182,265 for the U.S. In five years, median home value is projected to change by 2.4 percent annually to \$215,957. From 2000 to the current year, median home value changed by 2.52 percent annually.

Economic Indicators

Housing Units by Occupancy Status and Tenure

| | Census 2000 | | 2010 | | 2015 | |
|---------------------|-------------|---------|--------|---------|--------|---------|
| | Number | Percent | Number | Percent | Number | Percent |
| Total Housing Units | 17,144 | 100.0% | 21,132 | 100.0% | 22,864 | 100.0% |
| Occupied | 15,098 | 88.1% | 18,083 | 85.6% | 19,101 | 83.5% |
| Owner | 9,848 | 57.4% | 11,891 | 56.3% | 12,869 | 55.4% |
| Renter | 5,250 | 30.6% | 6,192 | 29.3% | 6,432 | 28.1% |
| Vacant | 2,046 | 11.9% | 3,049 | 14.4% | 3,763 | 16.5% |

Owner Occupied Housing Units by Value Trends 2010-2015



Shopping Centers

Prescott has seven major shopping areas: 1) the downtown/central business district, 2) a shopping center in west Prescott, 3) the Miller Valley area, 4) the Iron Springs Road area which includes three major shopping centers, 5) the Frontier Village Center on Highway 69, just east of Prescott, 6) and the Costco/Pets Mart center at Lee Blvd. at the entrance to The Ranch at Prescott. The new regional mall at Lee Boulevard and Highway 69, effectively between Costco and the Frontier Village Center, represents a seventh shopping center and sets the stage for the Highway 69 corridor to dominate as the commercial hub of the area.

The Iron Springs Road area was for many years the main retail and commercial zone for the city. However, new neighborhood shopping centers have been constructed just north of the central business district and on the Yavapai Indian reservation just east of Prescott on Highway 69. The latter facility includes a Wal-Mart store, a Target and Home Depot as its major tenants. In 2003, a Wal-Mart Super Center opened near the Gateway Mall along the Prescott Lakes Parkway. Along with the mall, the Wal-Mart center appears to be redistributing the retail activity in the community. This has adversely affected several of the previously established areas.

The addition of retail space in the community has been quite inconsistent. In 1983, 91,200 SF was added, while 1984 and 1985 were about equal (36,000 SF), but considerably less than 1983. In 1986, the amount of retail space added dropped to $\pm 20,000$ square feet. However, in 1987 it bounced back with some 114,500 square feet being added. This large jump reflects the addition of the Smith's Food store at $\pm 71,240$ square feet. The amount of retail space added in 1988 and 1989 once again dropped dramatically with less than 20,000 square feet added. Again in 1990 the amount of retail space added was less than 10,000 square feet. However, the addition of the two neighborhood shopping centers increased the amount of new space dramatically for 1991 and 1992. One of the two new centers is known as the Depot Center. This center, anchored by Albertson's, Staples and Walgreen's, is located just north of Prescott's Central Business District at the corner of Montezuma and Sheldon Streets. The second center is the Frontier Village that is located on Highway 69 just east of Prescott on the Yavapai Indian Reservation. The former Wal-Mart store (now vacant), Bashas' (now vacant), a Target Store, and a Home Depot anchor this center. Together, these two centers have added over 500,000 square feet of retail area to the market retail space. The regional mall has added $\pm 653,000$ square feet of gross leasable retail space on 77 acres. The anchor tenants occupy over 300,000 square feet of this total. Red Robin Restaurant added 6,949 square feet. The latest tenants are Best Buy, a World Market Store and The Room Store (furniture store). The Super Wal-Mart Store added 209,529 square feet in late 2003. Other new facilities in this area include Lamb Chevrolet, York Chrysler Dodge, and Downey Savings Bank, In-N-Out Burger, and Olive Garden Restaurant.

The Ponderosa Plaza Shopping Center, formerly the largest and most well established center in the community, took the blunt of the economic blow of the new centers along the 69 corridor. This center along with the immediate area is undergoing economic development with the assistance of the City of Prescott (Prescott Enterprise Zone). The mall is in the final stages of redevelopment. A Wal-Mart Superstore ($\pm 169,154$ sq. ft.) is complete in a shopping center known as "The Village at the Boulders". The remaining buildings have been remodeled and add another $\pm 150,000$ sq. ft. of retail space. In conjunction with this redevelopment, Ponderosa Plaza Drive has been realigned and

extended as what has become the Gail Gardner Way extension. This extension connects Iron Springs Road to the southeast to Willow Creek Road to the northeast at Prescott Heights Dr.

Another well-established center on West Gurley Street, previously anchored by Fry's market has been converted to office space and now houses governmental agencies. A portion of the center is still vacant and available for lease. The Frontier Village center, located on the Yavapai Indian Tribe land along Highway 69, is predominately occupied having been open and expanding since early 1992. Uses found in this center include Home Depot, the former Outback Steakhouse, Burger King, Peter Piper Pizza, Applebee's Restaurant, Red Lobster, former American Home Furnishings (old Wal-Mart store), former Bashas Food Store, Wendy's, Block Buster, Coco's Restaurant, Target, and numerous in-line shops. A substantial amount of retail space is currently available in this center. The Depot Center is anchored by Albertson's, Walgreen's, Starbucks, The Streets of New York, M & I Bank, and a number of smaller in-line users. Currently vacancy exists in this center as in-line tenant space has become available.

The Prescott Towne Center on Iron Springs Road in northwest Prescott has experienced appreciable vacancy being in a similar position as the Ponderosa Plaza. A large retail space became vacant in this center when the anchor Long's Drug Store closed in the summer of 1992 leaving a large space vacant in this center. A second unit in this center was subsequently vacated by Manuel's Mexican Restaurant. Both of these spaces were have been either leased or purchased, the former was purchased by Marler's, a furniture retailer, and the latter leased to a breakfast and lunch restaurant. Biddles Outdoor store recently renovated and is occupying a significant amount of retail space formerly occupied by Prescott Live.

Vacancies are predominately in areas on the western and northwestern fringes of Prescott; indicate the movement of the area's commercial center towards the 69 corridor.

One of Prescott's main attractions is its climate. The winters are relatively mild and the summers are cool, rarely reaching 100 degrees, with low humidity. Located on the pine-clad slopes of the Bradshaw range, Prescott offers a popular escape during the summer months to many and an aesthetic mountain setting for permanent residents. The following chart summarizes Prescott's climate and illustrates both the absence of extreme conditions and the existence of four distinct seasons.

PRESCOTT 47 YEAR (1950-1997) AVERAGES

| Month | Temperature (°F) | | Rain Inches | Snow Inches |
|-----------|------------------|-----|----------------|----------------|
| | High | Low | | |
| January | 50 | 23 | 1.72 | 1.50 |
| February | 51 | 24 | 1.61 | 1.60 |
| March | 59 | 27 | 1.55 | 1.90 |
| April | 66 | 35 | 0.72 | 1.10 |
| May | 77 | 40 | 0.50 | |
| June | 85 | 46 | 0.36 | |
| July | 89 | 51 | 0.15 | |
| August | 96 | 55 | 0.15 | |
| September | 87 | 46 | 1.49 | |
| October | 72 | 37 | 1.22 | 0.20 |
| November | 60 | 28 | 1.11 | 1.90 |
| December | 52 | 27 | 1.80 | 4.60 |
| Total | | | 16.85 | 20.60 |

As expected, the primary industry for the area is tourism. Prescott has much to offer visitors, especially in the summer months. Some of the attractions which lure numbers of visitors to Prescott are some 27 summer camps in the pines above and around Prescott, "The World's Oldest Rodeo" on the Fourth of July, art shows, and numerous softball tournaments. In addition, the natural environment and scenic beauty found in the pine forests, mountains and Granite Dells in the vicinity lure many travelers to the area.

Secondary industries include light manufacturing, timber and wood products, mining, and cattle ranching. Prescott is primarily a service-oriented town, with retail trade and service related professions making up over 60% of the job base, various city, state, and federal agencies follow, the largest of which is the U.S. Forest Service.

As of 1990, the Prescott civil labor force was estimated at 11,412 with about 10,829 employed, rendering a 5.1% civil unemployment rate. The unemployment rate for 2010 is estimated at 9%. The labor force is concentrated in the services and retail trade sectors, with FIRE, construction, and Public Administration also contributing significant employment. The following statistics were taken from ESRI forecasts for 2010-2014.

| | 1990 | | Census 2000 | | 2010 | | 2015 | | Percent Change | |
|--|--------|---------|-------------|---------|--------|---------|--------|---------|----------------|-----------|
| | Count | Percent | Count | Percent | Count | Percent | Count | Percent | 1990-2000 | 2010-2015 |
| Total Population | 27,534 | | 33,536 | | 40,494 | | 42,710 | | 21.3% | 5.5% |
| Total Households | 11,851 | | 15,098 | | 18,063 | | 19,102 | | 27.4% | 5.6% |
| Civilian Population 16+ in Labor Force | | | | | | | | | | |
| Civilian Employed | 10,593 | 91.3% | 13,427 | 88.9% | 15,215 | 91.0% | 16,285 | 92.7% | 26.8% | 7.0% |
| Civilian Unemployed | 785 | 6.7% | 709 | 5.0% | 1,513 | 9.0% | 1,277 | 7.3% | -7.3% | -15.6% |

| Households by Income | 2000 | | 2010 | | 2015 | |
|--------------------------|----------|---------|----------|---------|----------|---------|
| | Number | Percent | Number | Percent | Number | Percent |
| <\$15,000 | 2,972 | 19.3% | 2,174 | 12.0% | 1,767 | 9.3% |
| \$15,000 - \$24,999 | 2,484 | 16.1% | 2,572 | 14.2% | 2,271 | 11.9% |
| \$25,000 - \$34,999 | 2,143 | 13.8% | 2,024 | 11.2% | 1,760 | 9.2% |
| \$35,000 - \$49,999 | 2,644 | 17.2% | 3,041 | 16.8% | 2,762 | 14.5% |
| \$50,000 - \$74,999 | 2,490 | 16.2% | 3,390 | 18.7% | 3,794 | 19.9% |
| \$75,000 - \$99,999 | 1,172 | 7.6% | 2,101 | 12.1% | 2,468 | 12.9% |
| \$100,000 - \$149,999 | 945 | 6.1% | 1,795 | 9.9% | 2,676 | 14.0% |
| \$150,000 - \$199,999 | 216 | 1.4% | 382 | 2.1% | 609 | 4.2% |
| \$200,000+ | 339 | 2.2% | 524 | 2.9% | 794 | 4.2% |
| Median Household Income | \$35,409 | | \$45,970 | | \$54,350 | |
| Average Household Income | \$48,715 | | \$62,024 | | \$74,062 | |
| Per Capita Income | \$22,565 | | \$28,596 | | \$34,174 | |

| Age Group | Percentage |
|-----------|------------|
| 18-24 | 12.2% |
| 25-34 | 14.2% |
| 35-44 | 12.5% |
| 45-54 | 12.5% |
| 55-64 | 12.5% |
| 65-74 | 12.5% |
| 75+ | 12.5% |

| | Number | Percent |
|---|-------------|---------|
| 2010 Households by Disposable Income | | |
| Total | 16,083 | 100.0% |
| < \$15,000 | 2,995 | 18.6% |
| \$15,000 - \$24,999 | 2,986 | 18.6% |
| \$25,000 - \$34,999 | 2,691 | 16.7% |
| \$35,000 - \$49,999 | 3,152 | 19.6% |
| \$50,000 - \$74,999 | 3,423 | 21.3% |
| \$75,000 - \$99,999 | 1,494 | 9.3% |
| \$100,000 - \$149,999 | 1,150 | 7.2% |
| \$150,000 - \$199,999 | 240 | 1.5% |
| \$200,000+ | 335 | 2.1% |
| Median Disposable Income | \$37,696 | |
| Average Disposable Income | \$52,368 | |
| 2010 Consumer Spending | | |
| Average Consumer Spending | \$59,264.96 | |
| Average Consumer Spending on Retail Goods | \$21,505.7 | |
| Census 2000 Population 16+ by Employment Status | | |
| Total | 29,556 | 100% |
| In Labor Force | 14,205 | 48.1% |
| Civilian Employed | 13,427 | 45.4% |
| Civilian Unemployed | 769 | 2.6% |
| In Armed Forces | 69 | 0.2% |
| Not in Labor Force | 15,351 | 51.9% |
| Census 2000 Population 25+ by Educational Attainment | | |
| Total | 31,549 | 100% |
| Less than 9th Grade | 742 | 2.4% |
| 9th - 12th Grade, No Diploma | 1,663 | 5.3% |
| High School Graduate | 7,195 | 22.8% |
| Some College, No Degree | 8,735 | 27.7% |
| Associate Degree | 2,709 | 8.6% |
| Bachelor's Degree | 6,101 | 19.3% |
| Graduate/Professional Degree | 4,379 | 13.9% |

| | |
|---------------|----------------|
| Libraries | 4 |
| Museums | 5 |
| Art Galleries | 4 |
| Parks | 21 (211 Acres) |

| | |
|----------------------|-----------------------|
| Pools | 3 (New YMCA facility) |
| Golf Courses | 2 (18 Hole) |
| Athletic Facilities | 15 Baseball Diamonds |
| | 4 Football Fields |
| Theaters | 6 |
| Tennis Courts | 16 (Lighted) |
| Roller Skating | 1 Rink |
| Racquetball | 2 (Indoor Facilities) |
| Bowling | 1 |
| Prescott Animal Park | 1 |

Aside from climate and aesthetic factors which make Prescott an attractive retirement town, a large inventory of service facilities and personnel exist to care for the community.

Prescott offers the Yavapai Regional Medical Center a 127-bed, full-service hospital. It is home to an acclaimed cardiac cath lab and angiography service, state-of-the-art imaging services and a full spectrum of healthcare options that range from preventive medicine to family-centered obstetrics. A 24-hour emergency department with Fast Track capabilities, inpatient and outpatient surgical services and highly respected Partners for Healthy Students program all contribute to YRMC's important healthcare presence. In addition to the hospital, several full care nursing homes and congregate care centers service the Prescott area.

Prescott has municipal water and sewer systems. Natural gas and electricity are also available. Television reception is available via cable or antenna, and in September 1982, KUSK, Prescott's first local television station, began broadcasting. In addition, the Prescott Community Access Channel also broadcasts programs that are generated in Prescott. Rates for community services are comparable to other communities around Arizona. The area is served by six radio stations, three AM and three FM, which provide an adequate range of listening. Five newspapers are available in the area, one local daily, one local weekly, two daily Phoenix papers and one national daily.

Law enforcement includes city police, sheriff's office for the area outside the city limits, and a highway patrol station. A mayor and council, closely watched by the citizenry govern the city. A city manager is employed and the local government is reasonably efficient with no major internal problems evident in recent years. The city does have some traffic and street problems. However, the situation appears no worse in Prescott than in other Northern Arizona communities such as Flagstaff and Kingman.

While some observers project that traffic and street problems will worsen with increased population growth, most agree that conditions are being improved considerably due to the construction of new major roadways. These include the widening of Willow Creek Road, the Prescott Lakes Parkway, and Pioneer Parkway and its airport extension from Highway 89A in north Prescott Valley. These roadways provide easier and faster access to various areas in both Prescott and the surrounding communities.

Six public elementary schools, five private elementary schools, two middle schools, a high school, and a junior college serve the city. Recent national achievement scores in reading, grammar, and math conducted at both elementary and high school levels show Arizona's average scores to be above national averages in all categories. Prescott students scored well above the Arizona scores in all categories.

An accredited four year liberal arts college, Prescott College, is located in Prescott, and Embry Riddle Aeronautical University (ERAU) of Prescott has been located in their facility just north of the city since 1978. Furthermore, ERAU has flight operations at the City of Prescott Airport. This four-year university contributes significantly to the Prescott economy.

Conclusion

The population of the Prescott area has grown during recent years at rates estimated to have been approximately 3.65% per year. The more persuasive data suggests that the annual growth rate during recent years is likely to have been from 3% to 4% with a projection of 5.5% annually over the next five years. The community remains a popular retirement location and new economic development has provided increased employment opportunities.

Predominate factors contributing to Prescott's economic growth are tourism, its status as a retail center for the surrounding area, its attraction as a retirement location, and its function as the Yavapai County seat. Expanded tourist facilities have increased the town's ability to attract and entertain visitors, while two major additions to the retail sector have further improved the town's retail strength. The government sector provides stability and year round economic stimulus. It is expected that these sectors of Prescott's economy will continue to bolster the overall economic health of the community.

Prescott's general economic well being and population growth bode well for most properties since these conditions increase the demand as growth in population generally leads to an increase in the demand for all property types.

NEIGHBORHOOD DESCRIPTION

The subject neighborhood is located approximately 7 miles northwest of downtown Prescott along Williamson Valley Road. The general neighborhood boundaries would be Pioneer Parkway to the south, Longview Estates to the east, Bard Ranch Road to the north, and the Granite Mountain Wilderness Area to the west.

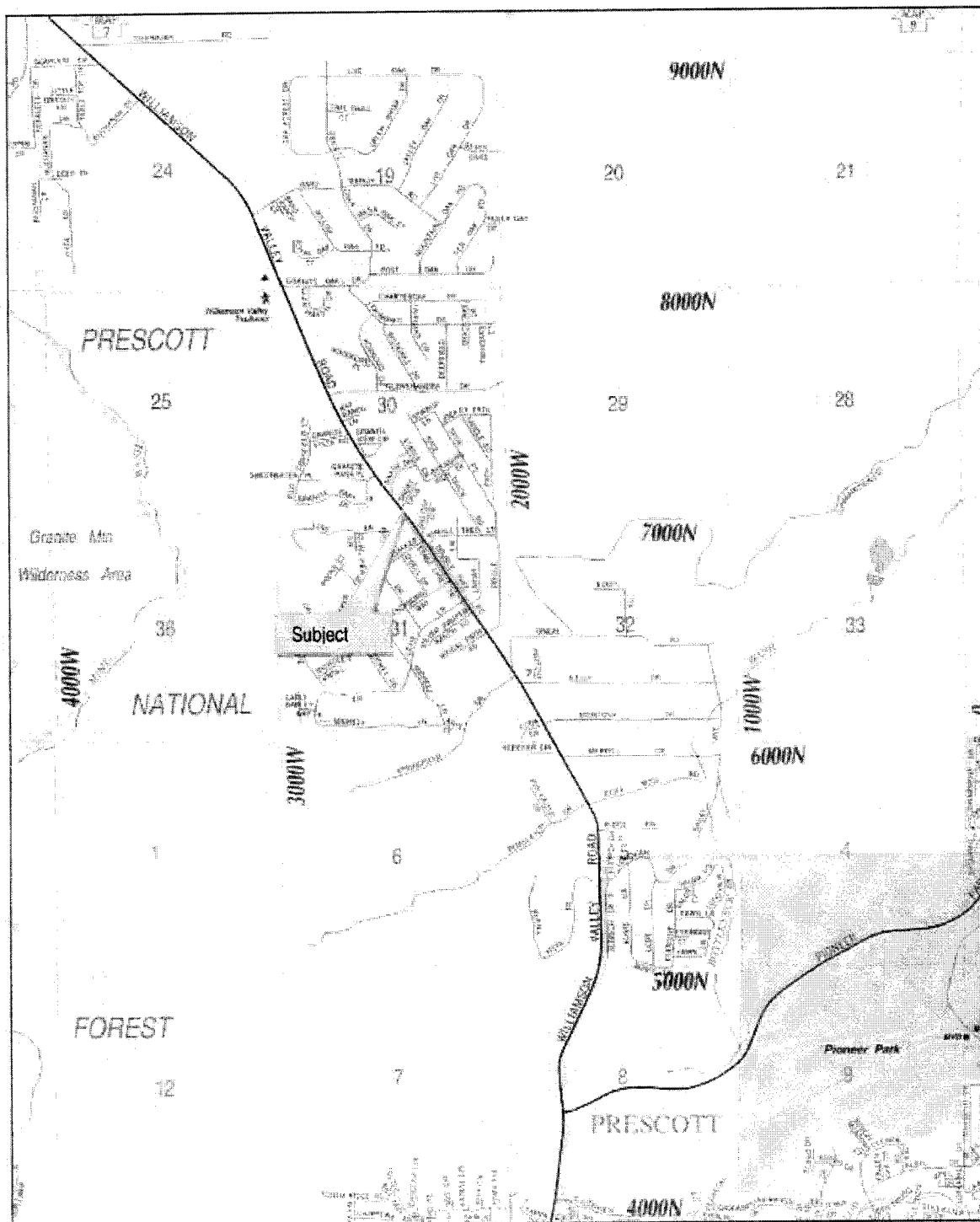
Williamson Valley Road connects Prescott with areas to the north and is the major arterial running north and south through this neighborhood. Pioneer Parkway to the south connects Williamson Valley Road to Willow Creek Road, the Airport area and runs east to Prescott Valley and connects to Highway 69 (becomes Fain Road) in the Prescott Country Club area.

Predominate development in this area consists of residential homes or subdivision for the construction of residential homes. There are other acreage developments that have been split into smaller parcels and improved with residential homes over the years.

Conclusion

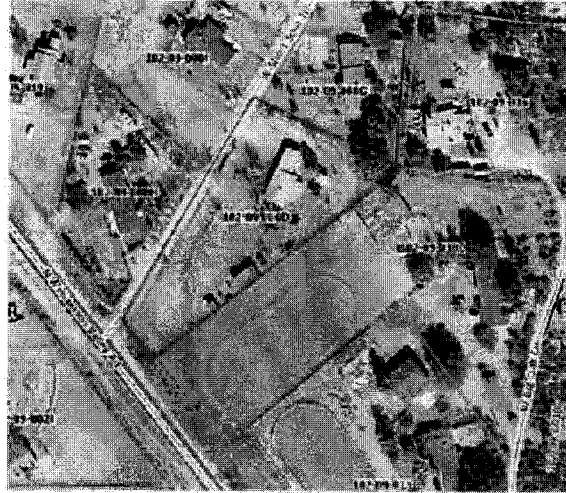
Overall this neighborhood is in a well established area of upper priced residential homes that is relatively close to City facilities, Yavapai Regional Medical Center, medical doctors, shopping, restaurants, schools, fire department, and recreational amenities. These areas is most desirable due to its rugged beauty, views, and is relatively close to City of Prescott amenities, but still is rural in nature.

NEIGHBORHOOD MAP



SITE DESCRIPTION

The subject site is identified as Assessor's parcel number 102-09-008ID. The property is described as follows:



SHAPE/POSITION:

The subject parcel is irregular in shape interior parcel. This configuration would not be restrictive in development of the subject property.

PARCEL SIZE:

± 1.47 acres or $\pm 64,015$ square feet.

FRONTAGE:

Approximately 375 lineal feet along Short Spur Trail and 76.42 lineal feet along Williamson Valley Road.

STREET IMPROVEMENTS:

Williamson Valley Road is a two lane aerial roadway without curbs, gutters, sidewalks, or street lights. Short Spur Trail is a two lane unpaved residential collector street without curbs, gutters, sidewalks, or street lights.

UTILITIES:

The site is served by a complete package of utilities including:

Electricity: Arizona Public Service.

Gas: Bottled gas

Telephone: Century Link;

Water: Well is required for domestic water

Sewage: Septic system is required.

TOPOGRAPHY:

The property is at street grade with Short Spur Trail and sits slightly below the grade of Williamson Valley Road. There is a small drainage area that bisects the western portion of the subject property.

EASEMENTS:

The appraiser is unaware of any easements, other than typical public utility easements, that would adversely affect the utility and/or marketability of the subject property.

SOIL & SUBSOIL:

The appraiser is unaware of any soil or subsurface conditions which might reduce the utility of the site.

FLOOD ZONE:

According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps for Prescott, the subject property is not located in a flood plain and falls in Zone X. This is evidenced on Community Panel Number 04025C1670G, dated September 3, 2010.

HAZARDS:

None noted.

**UNIT OF
COMPARISON:**

The most widely recognized unit of comparison for vacant land parcels in the Prescott area is the price per acre or the price per square foot.

Conclusion

The subject parcel is located on the east side of Williamson Valley Road along the south side of Short Spur Trail. The parcel is without any significant nuisances, hazards or other detrimental conditions noted.

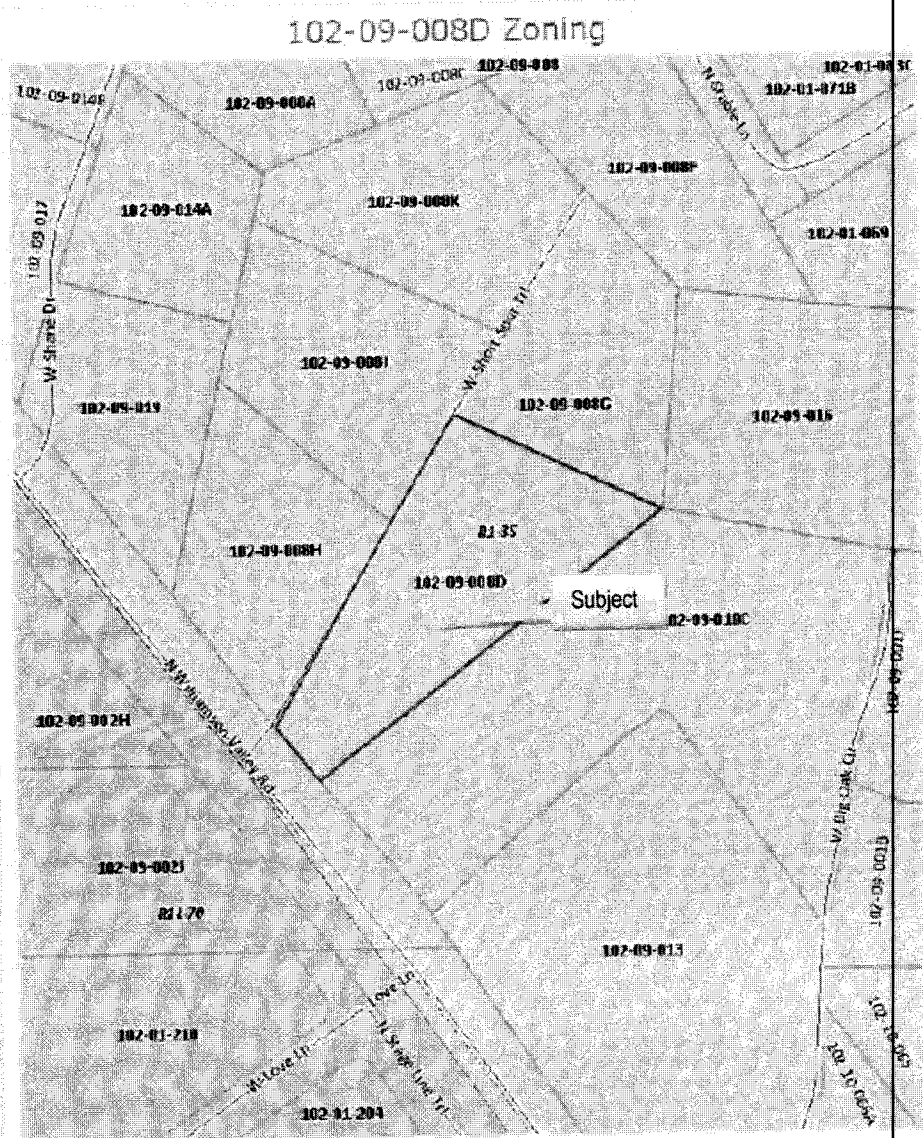
The subject site is situated in an area which is characterized by predominately residential uses on larger acreage parcels.

ZONING

The zoning classification for the subject property is R1-35, Residential; Single Family, under the jurisdiction of Yavapai County. According to the Yavapai County Zoning Ordinance permitted uses within the R1 district include one Single Family; site built, multi-sectional and manufactured dwelling unit per lot, religious institutions, educational institutions, community parks, playgrounds or centers, public utility facilities, and the keeping of farm animals on lots not less than 35,000 square feet.

General development requirements include both a minimum width and depth requirement of 145 feet, a minimum lot area of 35,000 square feet and maximum building height of 30 feet or two stories. Front, side and rear yard requirements are 40 feet, 20 feet, and 40 feet respectfully. The maximum lot coverage permitted is 15% and the minimum spacing between buildings is 10 feet.

There are no known zoning actions pending which would affect the subject property.

ZONING MAP

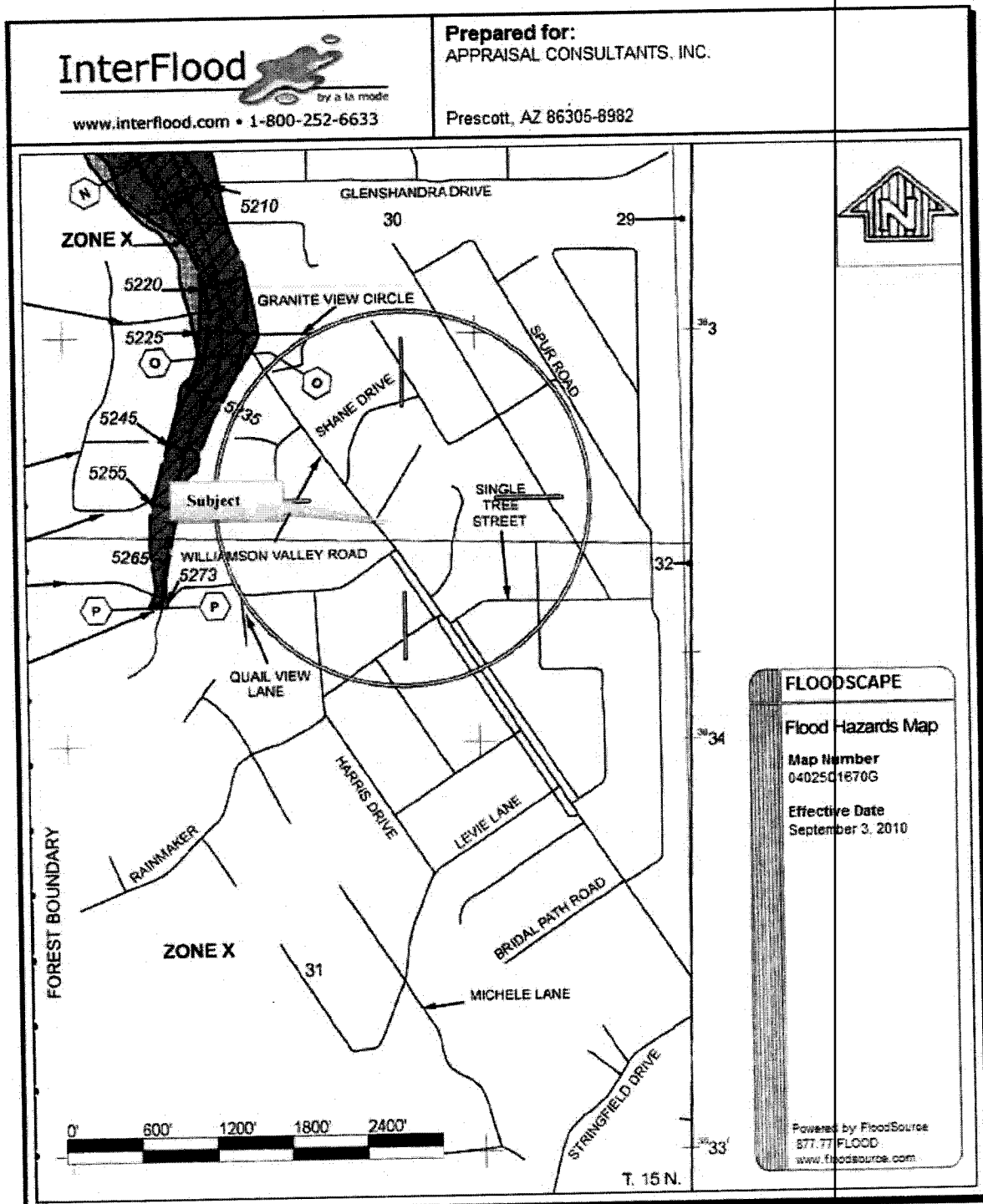
Disc owner: Map and parcel information is believed to be accurate but accuracy is not guaranteed. No portion of the information should be considered to be, or used as, a legal document. The information is provided subject to the express condition that the user knowingly waives any and all claims for damages against Venetian County that may arise from the use of this data.

Map created on: 1/21/2021

1998年12月15日

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FLOOD MAP



© 1999-2010 SourceProse and/or FloodSource Corporations. All rights reserved. Patents 6,631,326 and 6,675,615. Other patents pending. For info: info@floodsource.com.

DESCRIPTION OF IMPROVEMENTS

The subject property is currently improved with a residential structure, with a single car attached garage, and a single car attached carport. The house was constructed in 1978. In addition to the residential building there are associated site improvements in the form of landscaping, driveway, fencing, etc.

REAL ESTATE TAXES

The subject property is identified on the Yavapai County Assessor's Tax roll as AP # 102-09-008D. The subject's full cash value for 2011 is \$169,518 with a limited value of \$169,518. The current tax burden is \$1,346.72. The full cash and limited values for 2012 are projected to decline to \$140,700. The first half of the 2011 tax obligation has been paid and the taxes are current as of this date.

The Limited Value determines the primary property taxes (such as state, county, city taxes, school districts taxes and community college districts taxes), while the Full Cash Value determines the secondary property taxes (such as bonded indebtedness and voter approved districts). The Limited Value was developed to limit the amount of tax increase (limited to 10%) due to inflationary factors. The Limited Value never exceeds the Full Cash Value.

HIGHEST AND BEST USE

In the fifth edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute, *highest and best use* is defined as:

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.⁹

The highest and best use of land or a site as though vacant is defined as:

"Among all reasonably, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements."¹⁰

The highest and best use of property as improved is defined as:

"The use that should be made of a property as it exists. An existing property should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one."¹¹

⁹ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, Ill., 2010, page 93.

¹⁰ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, Ill., 2010, page 93-94.

¹¹ The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, Chicago, Ill., 2010, page 94.

The definitions of highest and best use indicate that there are two types of highest and best use. The first type is highest and best use of the land or a site as though vacant. The second is highest and best use of a property as improved. Each type requires a separate analysis. Moreover, in each case, the existing use may or may not be different from the site's highest and best use.

In estimating Highest and Best Use we examine possible use, permissible use, feasible use, and among the uses stated that use which will provide the highest return.

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In estimating Highest and Best Use we examine possible use, permissible use, feasible use, and among the uses stated that use which will provide the highest return.

AS VACANT

Legally Permissible

In analyzing the highest and best use of the acreage as vacant, uses that are legally permissible are considered first. The legally permissible uses of the acreage are generally those included in the zoning designation that governs the area. Yavapai County zoning for the area is R1-35. Uses allowed by this zoning are predominately residential on lots of no less than 35,000 square feet.

Furthermore, there are no known deed restrictions, covenants or conditions to which the property is subject that would restrict the use or development of the land.

Physically Possible

Within the uses that are legally permissible, the uses that are physically possible are identified next. The subject property contains approximately ± 1.47 acres or $\pm 64,015$ square feet. This overall size is larger than the minimum required by the zoning density of 35,000 square feet. The parcel is irregular in shape, is slightly below the street grade of Williamson Valley Road but is at street grade with Short Spur Trail. The physical characteristics do not restrict the uses outlined as legally permissible; therefore, the physically possible uses would be similar to those legal uses.

Financially Feasible

Economic feasibility is a measure of the ability of a given use to produce sufficient revenue to cover expense and charges, as well as provide a reasonable return on the capital investment, together with a recapture of the money invested in a project. The subject is zoned for single family residential usage. Similarly, the lands surrounding the subject property are also residential in use. Over the past couple of years the Prescott area along with much of the National economy, has had a decrease in demand for vacant residential parcels. Given the cost of construction as compared with the cost to purchase existing residential properties, it may not be economically feasible to develop the subject property with a residential home at this time.

Maximally Productive

In order to be maximally productive, such a use would need to conform to certain characteristics as outlined under financially feasible. The subject property is physically of sufficient size and shape to support single family residential development depending upon economic demand within the area. As previously stated the subject market is currently over-supplied with vacant and available residential land parcels, with little or not residential construction taking place at this time. In this current market, the best use would be speculative holding in anticipation of future construction of a residential home as demand dictates.

It is, therefore, concluded that the highest and best use of the subject acreage, as if vacant and available for parcel 102-09-008D would be for speculative holding in anticipation of future residential development.

AS IMPROVED

The subject property is currently improved with a residential structure, with a single car attached garage, and a single car attached carport. The house was constructed in 1978. The current use fits the parameters of the highest and best use as vacant and available and therefore is considered to be improved to its highest and best use.

APPROACHES TO VALUE

In the valuation of real estate, three approaches to value are generally recognized.

Cost Approach *A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.*¹²

Sales Comparison Approach *A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparable sales are available.*¹³

Income Capitalization Approach *A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.*¹⁴

¹² Appraisal Institute, *The Dictionary of Real Estate Appraisal, Fifth Edition*, Appraisal Institute, Chicago, Ill., 2010, page 47.

¹³ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Fifth Edition*, Appraisal Institute, Chicago, Ill., 2010, page 175.

¹⁴ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Fifth Edition*, Appraisal Institute, Chicago, Ill., 2010, page 99.

In essence, all approaches to value (particularly when the purpose of the appraisal is to establish market value) are market data approaches since the data inputs are presumed to be market derived; however, only the sales comparison is processed herein.

LAND VALUATION

The Direct Sales Comparison Approach is an appraisal procedure in which the market value estimate is predicated upon prices paid for similar properties in actual market transactions. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon: a) the availability of comparable sales data, b) the verification of the sales data, c) the degree of comparability or extent of adjustment necessary for time differences and d) the absence of non-typical conditions affecting the sale.

The land valuation herein is based upon the economic theory of substitution which holds that an informed buyer would pay no more for a piece of property than an equally desirable one.

In developing an estimate of Market Value via the direct sales comparison approach, four steps were taken:

1. A search was made to find comparable sales transaction properties for which pertinent data was available.
2. The sale prices, terms and motivation for these sales were studied.
3. The properties similar to the subject were then compared for the purpose of identifying and measuring the differences.
4. In light of the analysis that is made, units of comparison are developed and an estimate of market value of the subject property derived.

The following land sales are cited:

COMPARABLE LAND SALE - 1

LOCATION: 2825 W. Sweetwater Place, Prescott, Arizona
ASSESSOR PARCEL NO.: 102-18-019, Yavapai County
LEGAL DESCRIPTION: Lot 19, Granite Park Ranch

DATE OF SALE: August, 2010
DATE OF RECORDING: September 3, 2010
INST/DOC/PAGE: SWD 4762/458

GRANTOR: John R. Ammon and Patricia M. Ammon
GRANTEE: Carl J. Cupp and Susan Ann Cupp

SIZE/SHAPE OF SITE: This irregular shaped parcel contains ± 2.00 acres or $\pm 87,120$ sq. ft.
SITE DESCRIPTION: This parcel is predominately level (slight slope to the east) and is mostly native grasses with some Juniper trees. This property has views of Granit Mtn., Mingus Mtn., and the San Francisco Peaks.

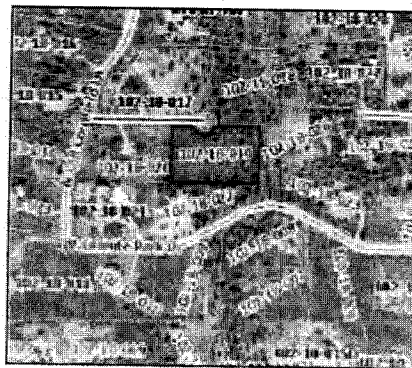
ZONING: R1L-70 (Yavapai County)
HIGHEST & BEST USE: Single family residential development

SALE PRICE & TERMS: \$85,000 Cash
CASH EQUIVALENCY: \$85,000
PRICE PER ACRE: \$42,500
PRICE PER SQ. FT.: \$.98

CONFIRMATION: Russell Parker, MAI with Legal Documents, Affidavit of Value and MLS Documents 10/4/2010.

REMARKS: This property is located in the Granite Park Ranch subdivision on the west side of Williamson Valley Rd. The lot fronts Sweetwater Place. Utilities available are phone, electricity and a private water company.

There were no other sales of this property in the three years prior to this transaction. The previous sale occurred in September, 2001 for \$99,500 (\$1.14/sq. ft.). It was on the market for 220 days and had an original asking price of \$200,000 which was decrease in May 2010 to \$150,000. The east border of this property may fall in a designated flood area per FEMA Map # 0425C1670G dated September 3, 2010.



COMPARABLE LAND SALE - 2

LOCATION: 2910 Rainmaker, Prescott, Arizona
ASSESSOR PARCEL NO.: 102-14-022, Yavapai County
LEGAL DESCRIPTION: Lot 28, Granite Mountain Homesites, Unit V, Phase I

DATE OF SALE: October, 2010
DATE OF RECORDING: November 2, 2010
INST/DOC/PAGE: WD 4774/589

GRANTOR: Johnson, Robert A. & Sally A.
GRANTEE: Laman, Roger E.

SIZE/SHAPE OF SITE: This irregular shaped parcel contains ± 1.84 acres or $\pm 80,150$ sq. ft. per the County
SITE DESCRIPTION: The lot is sloping to level with views and some Juniper & Pinon trees

ZONING: RCU-2A (Yavapai County)
HIGHEST & BEST USE: Single family residential development

SALE PRICE & TERMS: \$140,000, Cash
CASH EQUIVALENCY: \$140,000
PRICE PER ACRE: \$76,087
PRICE PER SQ. FT.: \$1.75

CONFIRMATION: Carolyn Parker for Russell Parker, MAI with Legal Documents, Affidavit of Value and Bonnie Mitchell, Realtor, 928-533-153, 1/24/12

REMARKS: This property is located near the top of the Granite Mountain Homesites west of the Williamson Valley Road. It is on the northeast corner of Rainmaker and Dancelle Dr., a short cul-de-sac. The adjoining lot has a million dollar home on it which increases the value of the neighborhood. Utilities include electricity, cable TV, phone and water via a private company; waste disposal is via septic. The views from this property include near-by Granite Mountain and more distant views of Mingus Mtn., the San Francisco Peaks, the red rocks or Sedona and panoramic views of other mountains and valleys.

There were no other sales of this property in the three years prior to this sale. It was listed in November, 2009 for \$175,000 (\$2.18/sq. ft.) until July, 2010, when the asking price was reduced to \$149,000. The Realtor had moderate interest in the property but she had to do a lot of advertising to get it. She feels that with the market conditions, the above price was a fair price. It remained at that price until the above sale. It is not located in a flood hazard area.



COMPARABLE LAND SALE - 3

LOCATION: 3150 W. Chipmunk Rd., Arizona
ASSESSOR PARCEL NO.: 100-17-001S, Yavapai County
LEGAL DESCRIPTION: Metes & Bounds in the S2 of Sec. 13, T15N, R3W

DATE OF SALE: August, 2011
DATE OF RECORDING: September 7, 2011
INST/DOC/PAGE: WD 4832/895

GRANTOR: Carney, Amy K. and
Will, Nathan E.
GRANTEE: Kern, Penni

SIZE/SHAPE OF SITE: This nearly square parcel contains ± 5 acres or $\pm 217,800$ sq. ft. per the County
SITE DESCRIPTION: The parcel is gently rolling with Oak and Pinon pines and views of Granite Mountain and surrounding hills.

ZONING: RCU 2A (Yavapai County)
HIGHEST & BEST USE: Single family residential

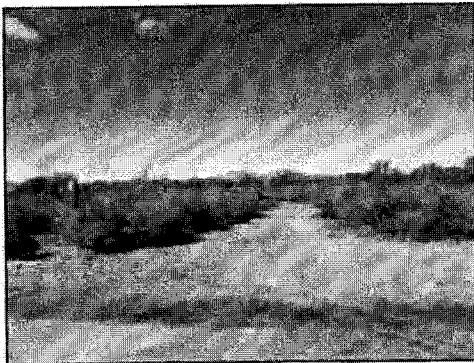
SALE PRICE & TERMS: \$150,000; \$20,000 (13%) Down; owner carry back. The Realtor couldn't recall for sure but felt it was a 30 year amortization with a 5 year call at approximately 5% or 6% interest.

CASH EQUIVALENCY: \$150,000
PRICE PER ACRE: \$30,000
PRICE PER SQ. FT.: \$.69

CONFIRMATION: Carolyn Parker for Russell Parker, MAI with Legal Documents, Affidavit of Value and John Pettit, Realtor, 928-776-1166, 1/20/12

REMARKS: This property lies approximately $\frac{1}{4}$ mile east of Williamson Valley Rd. Chipmunk Rd. is approximately 5 miles north of the Pioneer Parkway and is paved and county maintained. Utilities include electricity and phone. Water would be via a private well and waste disposal via a septic. Views include Granite Mtn. and some hills around Chino Valley.

There were no other sales of this property in the three years prior to this transaction. It was listed in January, 2011 for \$190,000 (\$.87/sq. ft.) until the above sale. Mr. Pettit is the selling agent and felt the sale price was a very good buy. He feels it would resell now for \$225,000 (\$1.03/sq. ft.). It is not located in a flood hazard area.



COMPARABLE LAND LISTING - 4

LOCATION: 2800 W. Sweetwater Place, Prescott, Arizona
ASSESSOR PARCEL NO.: 102-18-018, Yavapai County
LEGAL DESCRIPTION: Lot 18, Granite Park Ranch

GRANTOR: Grahame, Anthony & Lee Ellen

SIZE/SHAPE OF SITE: This irregular shaped parcel contains ± 3.02 acres or $\pm 131,553$ sq. ft. per the County

SITE DESCRIPTION: The parcel is gently sloping with Juniper and Pinon trees; it has views of Granite Mtn., Mingus, and the San Francisco Peaks.

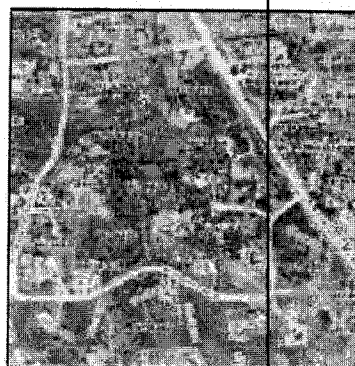
ZONING: R1L-70 (Yavapai County)
HIGHEST & BEST USE: Single family residential

ASKING PRICE: \$55,000
PRICE PER ACRE: \$18,212
PRICE PER SQ. FT.: \$.42

CONFIRMATION: Carolyn Parker for Russell Parker, MAI with Sharon Smith, Realtor 928-713-6516, 1/20/12

REMARKS: This property is located in the Granite Park Ranch Subdivision which contains larger parcels with single family houses. It lies just west of Williamson Valley Rd. and has all paved roads. This site is located at the end of a cul-de-sac and has a creek bisecting it from north to south. A county approved building envelope is located on the street side of the wash. The subdivision offers underground electricity, cable TV and phone. It is part of a private water company; waste disposal would be via a septic/alternative system. It has views of Granite Mountain and there is a private access from the subdivision to the adjoining national forest.

There have been no other sales of this property in the three years prior to this listing; it last sold in 2003 for \$119,000. It was first listed for sale in January, 2011 for \$96,000 (\$.73/sq. ft.); in February, 2011 it was reduced to \$94,000 and then to \$92,000. In March, 2011 the price was reduced to \$90,000 and then again to \$88,000. In July, 2011 the price was lowered to \$60,000 and in August, 2011 it was again lowered to the above \$55,000. Though there is a creek bisecting the property, it has a building site that has been approved by the County. It is in the FEMA flood plain, Map No. 04025C1670G, dated September 3, 2010.



COMPARABLE LAND LISTING - 5

LOCATION: 2845 W. Granite Park Dr., Prescott, Arizona
ASSESSOR PARCEL NO.: 102-18-009, Yavapai County
LEGAL DESCRIPTION: Lot 9, Granite Park Ranch

GRANTOR: Nikirk, Thomas A. & Connie

SIZE/SHAPE OF SITE: This irregular shaped parcel contains ± 2.06 acres or $\pm 89,734$ sq. ft. per the County
SITE DESCRIPTION: The nearly level parcel has Juniper and Pinon trees and views of Granite Mtn.

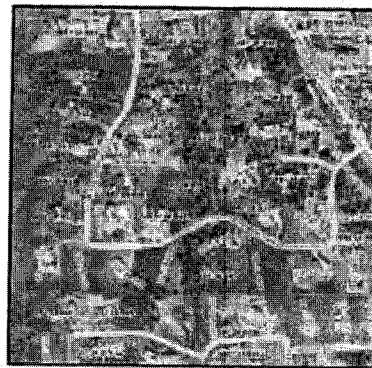
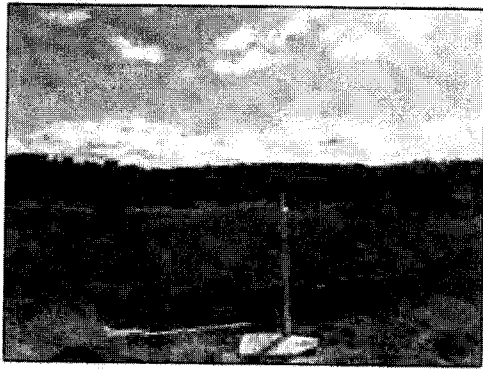
ZONING: R1L-70 (Yavapai County)
HIGHEST & BEST USE: Single family residential

ASKING PRICE: \$99,900
PRICE PER ACRE: \$48,495
PRICE PER SQ. FT.: \$1.11

CONFIRMATION: Carolyn Parker for Russell Parker, MAI with Linda Logue, Realtor, 928-778-3400,
1/20/12

REMARKS: This property is located in the Granite Park Ranch Subdivision which contains larger parcels with single family houses. It lies just west of Williamson Valley Rd. and has all paved roads. This site has a creek bisecting it from north to south along its east side. The subdivision offers underground electricity, cable TV and phone. It is part of a private water company; waste disposal would be via a septic/alternative system. It has views of Granite Mountain and there is a private access from the subdivision to the adjoining national forest.

There have been no other sales of this property in the three years prior to this listing. It was first listed for sale in January, 2009 for \$174,000 (\$1.94/sq. ft.); in February, 2009 it was reduced to \$169,900 and then to \$149,900 in May, 2009. In January, 2010 the price was reduced to \$145,900 and then again to \$141,900 in August, 2010. In November, 2010, the price was lowered to \$120,000 and in June, 2011 it was again lowered to \$119,900. The price was lowered to the above asking price in December, 2011. Though there is a creek dividing this property from the property to the east side, it does not appear to be in a flood plain due to the elevations.



COMPARABLE LAND LISTING - 6

LOCATION: 1400 Ridge Rd., Prescott, Arizona
ASSESSOR PARCEL NO.: 106-05-037, Yavapai County
LEGAL DESCRIPTION: Lot 27, Williamson Valley Estates #2

GRANTOR: Wright, Christopher W. & Krista

SIZE/SHAPE OF SITE: This nearly rectangular parcel contains ± 4.11 acres or $\pm 179,032$ sq. ft. per the County

SITE DESCRIPTION: The parcel is level to gently sloping with Juniper and Pinon trees and views of Granite Mtn., Mingus, and the San Francisco Peaks

ZONING: R1L-70 (Yavapai County)

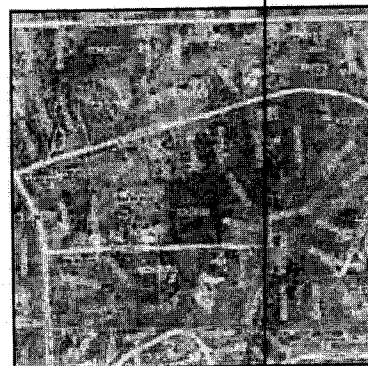
HIGHEST & BEST USE: One or two single family residential properties

ASKING PRICE: \$199,000
PRICE PER ACRE: \$48,418
PRICE PER SQ. FT.: \$1.11

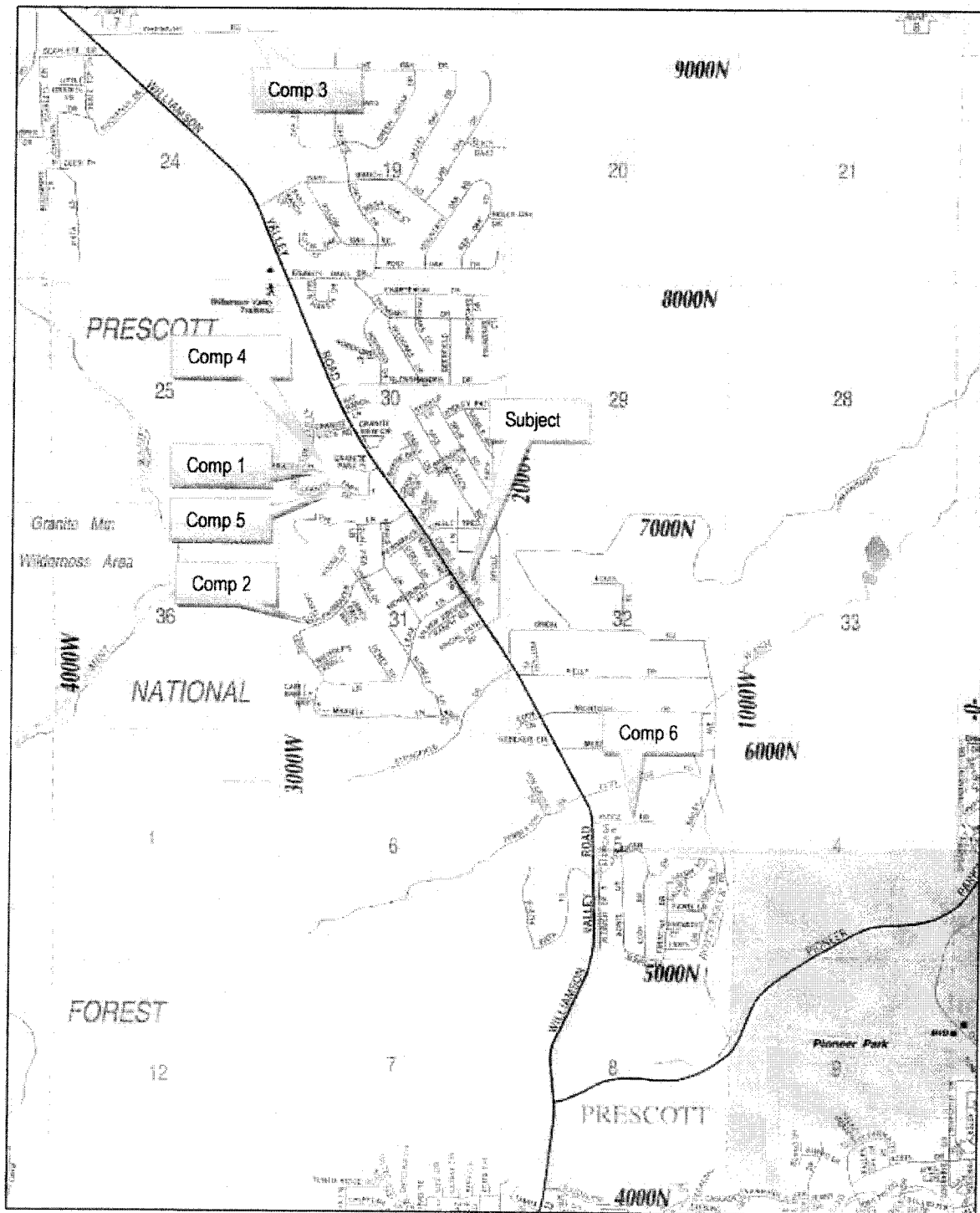
CONFIRMATION: Carolyn Parker for Russell Parker, MAI with Mary Jo Amos, Realtor, 928-443-9800, 1/20/12

REMARKS: This parcel fronts Ridge Rd. on the east side of Williamson Valley Rd. and about 1.25 miles north of the Pioneer Parkway. Ridge Rd. is a paved, county maintained, cul-de-sac; this parcel is near the end of the road. A private well is in place and pumps 15 to 17 GPM. In addition, utilities include electricity, cable TV and phone. Waste disposal would be via a septic system.

This property last sold in June, 2005 for \$225,000 (\$1.26/sq. ft.) It was listed for sale in July, 2010 for \$299,000 (\$1.67/sq. ft.) and was reduced to \$249,000 in March, 2011. In January, 2012, the above asking price was put in place. In the time it has been listed, there has only been one call on it; the Realtor feels this is rather typical for today's market. She also feels this is somewhat due to the lack of City utilities - especially sewer. To move the property the Realtor feels the buyer would have to come down somewhere between \$100,000 (\$.56/sq. ft.) to \$150,000 (\$.84/sq. ft.). It is not located in a flood hazard area.



COMPARABLE LAND LOCATION MAP



SUMMARY OF CONCLUSIONS

PROPERTY ADDRESS: 2475 Short Spur Trail, Prescott, Arizona 86305
 PROJECT: Williamson Valley Road – North Project
 LEGAL DESCRIPTION: An irregular shaped metes and bounds parcel lying in the W2SW4SE4 of Section 30, Township 15 North, Range 2 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.
 ASSESSOR'S PARCEL #: 102-09-008D (Yavapai)
 PROPERTY TYPE: Residential
 EFFECTIVE DATE OF VALUE: January 17, 2012
 DATE OF REPORT: February 9, 2012
 ZONING: R1-35
 PARCEL SIZES AND TAKING:

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

FLOOD PLAIN STATUS: According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps for Prescott, Community Panel Number 04025C1670G, dated September 3, 2010, the site is situated in Zone X. Zone X is defined as an area determined to be outside the 500-year flood plain.

HIGHEST AND BEST USE:

AS VACANT: Speculative holding in anticipation of residential development
 AS IMPROVED: Single Family Residence and related site improvements.

VALUATION ESTIMATES:

| | | | |
|----|--|---|-------------|
| 1 | Value of Larger Parcel before Take: | = | \$64,015 |
| 2 | Less: Value of Part Taken: | = | -\$2,986 |
| 3 | Equals: Remainder Value before Take: | = | \$61,029 |
| | | | \$61,029 Rd |
| 4 | Less: Remainder Value after Take: | = | \$61,029 |
| 5 | Equals: Damages: | = | \$0 |
| 6 | Or (4) Minus (3) Equals: Special Benefits: | = | \$0 ** |
| 7 | Net Damages: | = | \$0 * |
| 8 | Plus: Value of Part Taken: | = | \$2,986 |
| 9 | Equals: Total Difference: | = | \$2,986 |
| 10 | Depreciated Value of site Improvements: | = | \$1,166 Rd |
| 11 | Total Estimated Value Taken: | = | \$4,152 |

** No special benefits are created – differences due to method of adjustment – special benefits may not be used to offset value of part taken or damages.

* May not be less than 0

TCE: \$511.00
 DRAINAGE EASEMENT: \$1,441.00

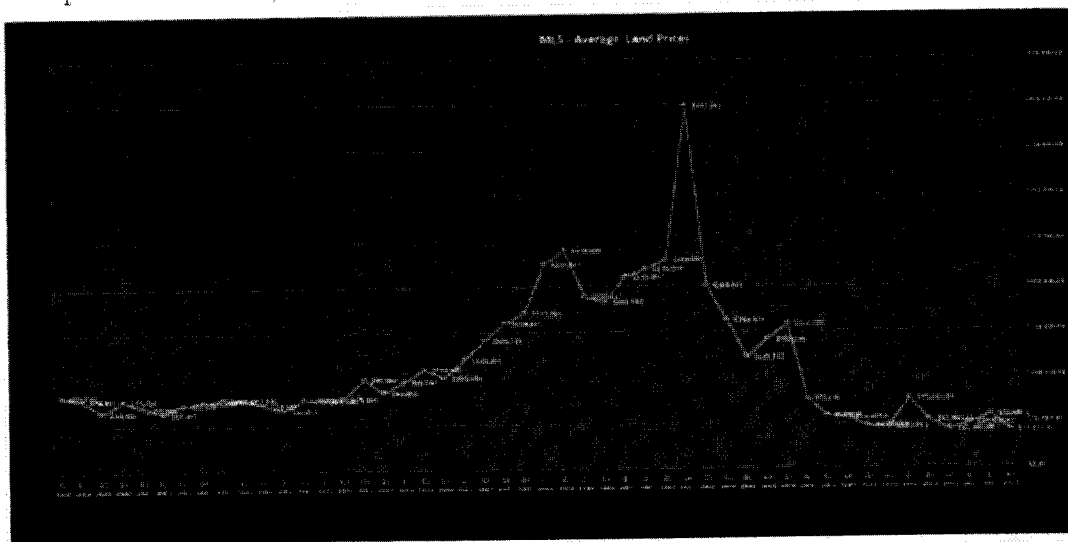
COMPARABLE LAND SUMMARY CHART

| Comparable Number | 1 | 2 | 3 | 4 | 5 | 6 | Means |
|---------------------|----------|-----------|-----------|----------|----------|-----------|----------|
| Size In Acres | 2.00 | 1.84 | 5.00 | 3.02 | 2.06 | 4.11 | |
| Size In Square Feet | 87,120 | 80,150 | 217,800 | 131,553 | 89,734 | 179,032 | |
| Transaction Price | \$85,000 | \$140,000 | \$150,000 | \$55,000 | \$99,900 | \$199,000 | |
| Price Per Ac. | \$42,500 | \$76,087 | \$30,000 | \$18,212 | \$48,495 | \$48,418 | \$43,952 |
| Price Per SF: | \$0.98 | \$1.75 | \$0.69 | \$0.42 | \$1.11 | \$1.11 | \$1.01 |

ADJUSTMENTS OF COMPARABLE SALES

The comparable sales are analyzed with respect to various *elements of comparison*. Such characteristics as *property rights conveyed, financing terms, conditions of sale, market conditions (time), location, size, and zoning* have been studied in the analysis of the comparable sales. The adjustments required for the various elements of comparison are discussed below.

1. The rights conveyed for each of the comparables are similar to the rights associated with the subject site. No significant diminution in rights caused by easements, leases, and etc. affect the subject or the comparables. Therefore, no adjustments are required for this element of comparison.
2. Each of the sales was for cash or terms that are found to be substantially cash equivalent. None of the comparables requires adjustment for financing terms.
3. Conditions of Sale is a category that addresses any unusual market influences such as the motivations of buyers and sellers that may have impacted the selling price. No adjustment is required for this category. However, the listings are adjusted for the difference between listing and selling price (list to sell ratio) based upon the typical list to sell ratio for vacant land in areas 110 and 160 per the Prescott Area Multiple Listing Service for the 4th quarter 2011 which was 82%.
4. Adjustments are made for changing market conditions during the period covered by the comparables. The subject market has been declining see the following graph:



The graph clearly shows that the market peaked in the 3rd and 4th quarters of 2007. The average pricing has decreased substantially beginning in the 1st quarter of 2006, ignoring the spike in 3rd and 4th quarters 2007, then a dramatic drop through 2nd quarter of 2010. The data shows a slight spike in the 3rd quarter 2010, then beginning in the 4th quarter 2010 through the 4th quarter 2011 the market has been somewhat erratic. Based upon the dates of sale none of the comparables are adjusted for changing market conditions. It might be argued that since Comparable 1 occurred in the 3rd quarter of 2010, some adjustment might be warranted, but the data is inconclusive as to a specific adjustment, therefore the comparable remains unadjusted for this characteristic.

5. Location adjustments are not required for the Comparables. The data is inconclusive as to the market's reaction to any differences. In the absence of data to the contrary, no adjustment has been made for locational differences.
6. Adjustments are required for physical characteristics such as availability of utilities, physical access, topography, and views. Comparable 2 is adjusted for its outstanding views of Granite Mountain, Mingus Mountain, Red Rocks of Sedona, and the San Francisco Peaks. The magnitude of the adjustment at 45% is based upon pairing its sale with the remaining comparables. Comparable is adjusted for its inferior topography. This adjustment (150%) is based upon its pairing with Comparables 1 and 3.
7. Adjustment for Highest and Best use is not required as each comparable has a similar highest and best use.
8. The comparables vary substantially in size. Typically, smaller parcels tend to bring a higher price per unit than larger parcels and conversely, larger parcels tend to bring a lower price than smaller parcels. Comparables 1, 2, and 5 are approximately 2 acres or slightly less. Comparables 3, 4, and 6 are larger parcels ranging from approximately 3 to 5 acres. The comparables are adjusted based upon the following graph which plots the size of each comparable after all adjustments, but prior to any size adjustment. See the following chart:



Land Value Conclusion of the larger parcel

The comparable sales and the required adjustments are summarized in the land adjustment chart which follows on the next page.

The range of value indicated for the subject property by the unadjusted prices per square foot is from \$.42 to \$1.75, with a mean of \$1.01 per square foot. After adjustment, the range becomes \$.90 to \$1.18 per square foot, with a mean of \$.98 per square foot. Given the magnitude of the adjustments, the overall lack of good comparable sales, along with current market conditions, greater emphasis is placed upon Comparables 1, 2, and 3 (see weighted average below), at \$.97 per square foot. A value for the subject parcel is concluded to be \$1.00 (rd) per square foot.

| Comp # | Indicated SF | % Weight | Contribution |
|-------------------|--------------|----------|--------------|
| Comparable 1 | \$0.98 | 25.00% | \$0.24 |
| Comparable 2 | \$0.96 | 25.00% | \$0.24 |
| Comparable 3 | \$0.90 | 5.00% | \$0.04 |
| Comparable 4 | \$0.96 | 10.00% | \$0.10 |
| Comparable 5 | \$0.91 | 25.00% | \$0.23 |
| Comparable 6 | \$1.18 | 10.00% | \$0.12 |
| Weighted Average: | | 100.00% | \$0.97 |

$$\pm 64,015 \text{ SF} @ \$1.00/\text{SF} = \text{\$64,015}$$

LAND ADJUSTMENT CHART

| Comparable Number | 1 | 2 | 3 | 4 | 5 | 6 | Means |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------|
| Size In Acres | 2.00 | 1.84 | 5.00 | 3.02 | 2.06 | 4.11 | |
| Size In Square Feet | 87,120 | 80,150 | 217,800 | 131,553 | 89,734 | 179,032 | |
| Transaction Price | \$85,000 | \$140,000 | \$150,000 | \$55,000 | \$99,900 | \$199,000 | |
| Price Per Ac. | \$42,500 | \$76,087 | \$30,000 | \$18,212 | \$48,495 | \$48,418 | \$43,952 |
| Price Per SF: | \$0.98 | \$1.75 | \$0.69 | \$0.42 | \$1.11 | \$1.11 | \$1.01 |
| Rights Conveyed | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | |
| Adjustment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Financing Terms | Cash | Cash | 13% Dn OCB | Listing | Listing | Listing | |
| Adjustment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Conditions of Sale | Typical | Typical | Typical | Listing | Listing | Listing | |
| Adjustment | \$0 | \$0 | \$0 | (\$9,900) | (\$17,982) | (\$35,820) | |
| Adjusted Price | \$85,000 | \$140,000 | \$150,000 | \$45,100 | \$81,918 | \$163,180 | |
| Adjusted Price / AC: | \$42,500 | \$76,087 | \$30,000 | \$14,934 | \$39,766 | \$39,703 | \$40,498 |
| Adjusted Price / SF: | \$0.98 | \$1.75 | \$0.69 | \$0.34 | \$0.91 | \$0.91 | \$0.93 |
| Market Conditions | Aug-10 | Nov-10 | Sep-11 | Dec-11 | Jan-12 | Jan-12 | |
| Number of Months | 17 | 14 | 4 | 1 | 0 | 0 | |
| Adjustment % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Time-Adjusted Price | \$85,000 | \$140,000 | \$150,000 | \$45,100 | \$81,918 | \$163,180 | |
| Time-Adjusted \$ / AC: | \$42,500 | \$76,087 | \$30,000 | \$14,934 | \$39,766 | \$39,703 | \$40,498 |
| Time-Adjusted \$ / SF: | \$0.98 | \$1.75 | \$0.69 | \$0.34 | \$0.91 | \$0.91 | \$0.93 |
| Location | Similar | Similar | Similar | Similar | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Topography | Similar | Similar | Similar | Inferior | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 150% | 0% | 0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$67,650 | \$0 | \$0 | |
| Utilities/Water | Similar | Similar | Well | Similar | Similar | Similar | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| View / Amenity | Similar | Superior | Similar | Similar | Similar | Similar | |
| Adjustment % | 0.0% | -45% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0 | (\$63,000) | \$0 | \$0 | \$0 | \$0 | |
| Highest & Best Use | No Mkt Diff | No Mkt Diff | No Mkt Diff | No Mkt Diff | No Mkt Diff | No Mkt Diff | |
| Adjustment % | 0% | 0% | 0% | 0% | 0% | 0% | |
| Adjustment \$ | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Size in Acres | 2.00 | 1.84 | 5.00 | 3.02 | 2.06 | 4.11 | |
| Adjustment % | 0% | 0% | 30% | 30% | 0% | 30% | |
| Adjustment \$ | \$0 | \$0 | \$45,000 | \$13,530 | \$0 | \$48,954 | |
| Indicated Price \$ | \$85,000 | \$77,000 | \$195,000 | \$126,280 | \$81,918 | \$212,134 | |
| Indicated Price \$ / AC: | \$42,500 | \$41,848 | \$39,000 | \$41,814 | \$39,766 | \$51,614 | \$42,757 |
| Indicated Price \$ / SF: | \$0.98 | \$0.96 | \$0.90 | \$0.96 | \$0.91 | \$1.18 | \$0.98 |
| Net Adjustment \$ / Unit | 0.00 | (0.79) | 0.21 | 0.54 | (0.20) | 0.07 | |
| Net Adjustment % | 0.0% | -45.0% | 30.0% | 129.0% | -18.0% | 6.0% | |

VALUATION OF THE PART TAKEN AS PART OF THE LARGER PARCEL

The second procedural step in the state rule is the valuation of the part taken. In the 'Valuation of the larger parcel before the take' section of the report, the value of the subject parcel was concluded. The land area to be taken by Yavapai County has been submitted to the appraiser by the Public Works Department. The following table presents the taking:

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

The total taking of frontage on Williamson Valley Road is estimated at 2,986 (rd) square feet. The part to be acquired from the larger parcel is for a perpetual easement for roadway purposes. The owners would retain only a reversionary interest in the land. There is little likelihood of the abandonment of the road which would result in a reversion of this land to the owner of the larger parcel. As a result, the new right of way to be acquired is considered to represent the fee simple interest in the land.

When applying the state rule, the part taken is generally valued as a part of the whole property prior to the taking. This is based upon the premise that the part taken contributes an equal pro rata value. The exception to this would be if the part taken has a separate economic use and a market value as a separate entity greater than its value as a part of the whole. In this case, it would be appropriate to value it separate and distinct from the whole.

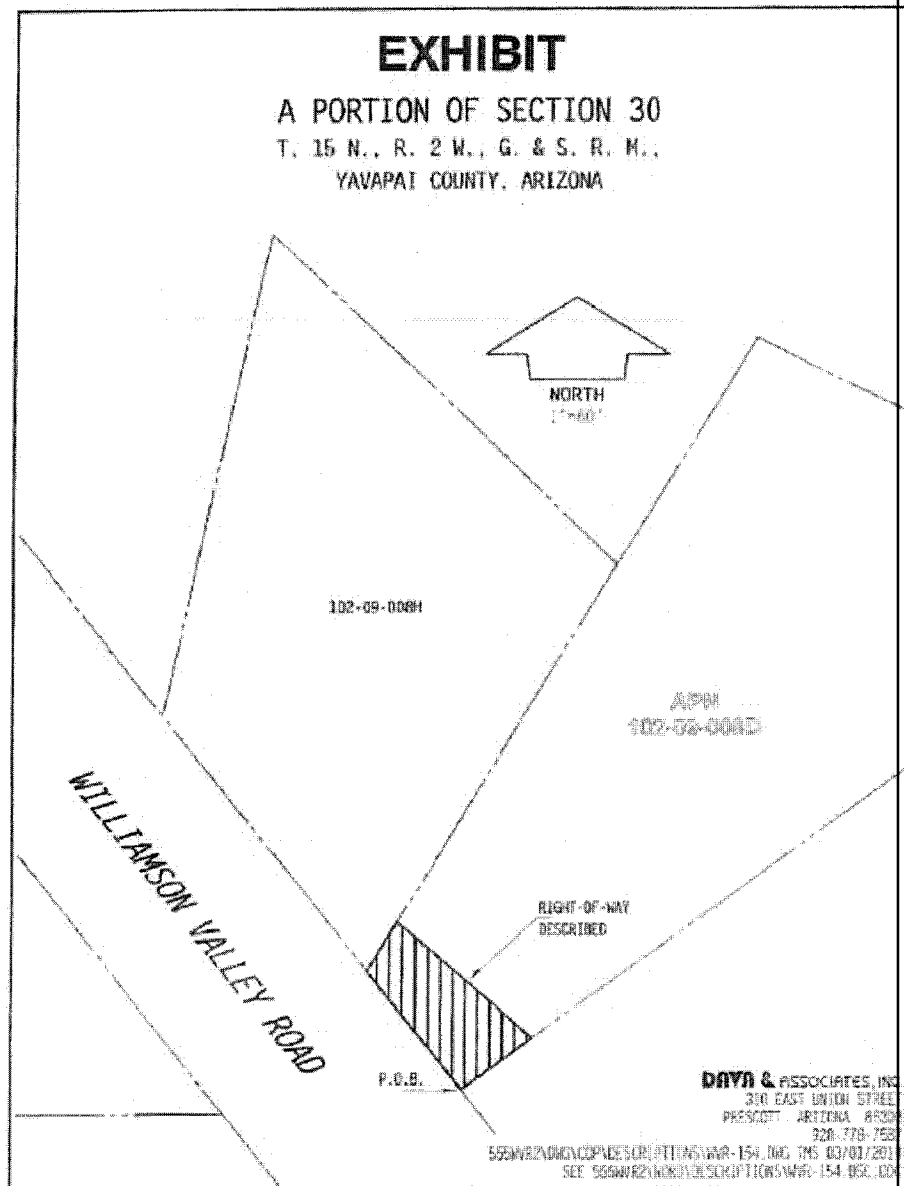
Land Value Conclusion of the Part to be Taken

The proposed part to be taken consists of small irregular parcel, which does not meet minimum size requirements of the current zoning district, it is irregular in shape and configuration, and is affected by conditions such that the parcel could not be considered a separate marketable entity. However, it is valued as a part of the larger parcel.

The value for the part to be taken as a part of the larger parcel is concluded to be \$1.00 (rd) per square foot.

$$\pm 2,986 \text{ SF} @ \$1.00/\text{SF} = \$2,986.00$$

MAP - ROW & REMAINDER MAP - PARCEL 102-09-008D



REMAINDER VALUE BEFORE THE TAKE

By definition, the remainder value of the larger parcel before the take is the value of the larger parcel before the take less the value of the part taken. This equation is applied to the subject property as illustrated below.

| | | |
|--|---|----------------|
| Value of the Larger Parcel before the Take | = | \$64,015 |
| Less: Value of the Part Taken | = | <u>\$2,986</u> |
| Remainder Value before the Take | = | \$61,029(rd) |

VALUATION OF THE REMAINDER AFTER THE TAKE

In this section of the report, the value of the subject property after the taking of the right of way is investigated. This analysis considers the physical, legal, and economical conditions which affect the subject property in the 'after' scenario. The taking of the right of way and the subsequent widening of Williamson Valley Road will alter the description of the property. The remainder parcel after the take contains approximately 61,029 square feet (see table below).

| Parcel # | Larger Parcel SFR | OW Taking SF | Remainder SFTCE | SF Drainage | Esm't SF |
|-------------|-------------------|--------------|-----------------|-------------|----------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

As in the analysis of the larger parcel before the take, the valuation of the remainder parcel after the take is based on a direct sales comparison procedure. The valuation of the remainder parcel after the take aligns closely with the valuation of the larger parcel before the take. The remainder parcel after the take is slightly smaller than the larger parcel before the take. The difference in size is not expected to have a pronounced impact on the value of the property.

AREA DESCRIPTION - AFTER THE TAKE

The area description does not change after the take.

MARKET AREA DESCRIPTION - AFTER THE TAKE

The market area description does not change after the take.

SITE DESCRIPTION - REMAINDER PARCEL - AFTER THE TAKE

The remaining property will be similar in the after scenario as in the before, except for overall size. The shape will be somewhat similar. Access and the availability of utilities will be unchanged by the acquisition or construction. The current configuration of the parcel is long and narrow with extensive frontage along Williamson Valley Road. This configuration remains, with the parcel narrowing.

ZONING - AFTER THE TAKE

The subject property falls under Yavapai County's R1-35 zoning classification. Under this zoning district the minimum parcel size is 35,000 square feet with a minimum width and depth of 145 feet. As the right of way being taken is to be taken as a perpetual easement, no property lines change and therefore the property after the take would meet all of the minimum requirements of the zoning code.

DESCRIPTION OF IMPROVEMENTS - AFTER THE TAKE

The parcel is improved with a residence which was constructed in 1978, a single car garage and a single car carport, and various site improvements. Before the take the subject residence meets the required setback of the zoning at 40 feet. After the take, the set back is unchanged because the taking is a perpetual easement rather than being taken in fee simple title.

HIGHEST AND BEST USE - AFTER THE TAKE

The Highest and Best use of the remainder after the take is concluded to be the same as for the larger parcel prior to the take.

SITE VALUATION - REMAINDER PARCEL - AFTER THE TAKE

The comparable land sales presented previously will be used as the basis of valuation for the remainder parcel after the take.

All the adjustments determined for the comparables in the "Before the Take" scenario remain the same. Therefore, the price per square foot is concluded to be the same for the remainder after the take at \$1.00 per square foot.

REMAINDER VALUE AFTER THE TAKE

Based on the previous analysis, the value for the subject remainder parcel after the take is:

| Remainder SF | Price SF | Total Estimate |
|--------------|----------|----------------|
| 61,029 | \$1.00 | \$61,029 |

VALUE OF DAMAGES

Severance damages reflect a decline in the market value of the remainder parcel (in the case of a partial taking) that arises as a result of the taking and/or construction of the proposed improvement.

Some conditions that may cause damages to the remainder property are:

- Change in the Highest and Best Use of the property.
- The manner in which access to the property will be restricted by the acquisition.
- Location of improvements in relation to the proposed roadway.
- Size, shape and/or topography of the remainder property.

By definition, the value of the damages is equal to the remainder value before the take less the remainder value after the take:

| | | |
|--------------------------------------|---|------------------|
| Remainder Value before the Take | = | \$61,029 |
| Less: Remainder Value after The Take | = | <u>\$ 61,029</u> |
| Value of Damages | = | \$ 0* |
| * May not be less than 0 | | |

VALUE OF SPECIAL BENEFITS

Special Benefits are defined as:

Those benefits which accrue directly and solely to the advantage of the property remaining after a partial taking.¹⁵

The value of the special benefits is calculated by comparing the remainder value before the take with the remainder value after the take. The special benefits are calculated below.

| | | |
|--|---|-----------------|
| Remainder Value after the Take | = | \$61,029 |
| Less: Remainder Value before the Take | = | <u>\$61,029</u> |
| Difference due to adjustment differences | = | \$ 0 |
| Value of Special Benefits | = | \$ 0** |

** No special benefits are created – differences due to method of adjustment – special benefits may not be used to offset value of part taken or damages.

In the case of the subject property, no significant special benefits are created. The amount indicated above is based upon the difference in the methods used (adjustments) rather than being created by special benefits. In any case, benefits may not be used to offset the indicated value of the part taken or of any damages. This step is completed to further acquaint the reader with the affect of the public improvement on the subject property.

Conclusion

The procedural steps in applying the state rule in the taking of a portion of the subject property are summarized below. The application of this procedure to the subject property in order to determine the Total Difference is also summarized.

¹⁵ Real Estate in Litigation, pp. 226

Procedural Steps

| | | | |
|---|---|---|----------------|
| 1 | Value of Larger Parcel before Take: | = | \$64,015 |
| 2 | Less: Value of Part Taken: | = | <u>\$2,986</u> |
| 3 | Equals: Remainder Value before Take: | = | \$61,029 |
| | | | \$61,029 Rd |
| 4 | Less: Remainder Value after Take: | = | \$61,029 |
| 5 | Equals: Damages: | = | \$0 |
| 6 | Or (4) Minus (3) Equals: Special Benefits | = | \$0 ** |
| 7 | Net Damages: | = | \$0 * |
| 8 | Plus: Value of Part Taken: | = | <u>\$2,986</u> |
| 9 | Equals: Total Difference: | = | \$2,986 |

** No special benefits are created – differences due to method of adjustment – special benefits may not be used to offset value of part taken or damages.

* May not be less than 0

DESCRIPTION OF IMPROVEMENTS BEING TAKEN

The parcel is improved with a single family residence, single car garage, single car carport, and associated site improvements. As part of the right of way some improvements in the form of approximately 150 lineal feet of box wire fencing on metal and wood posts, metal gate, corner ties and two trees will be impacted. The following table estimates the depreciated cost of these improvements:

| SITE IMPROVEMENTS COST SCHEDULE | | | | | | |
|--|----------|------|----------|----------|--------|-------------------|
| Item | Quantity | Unit | Price | Cost New | % Dep. | Depreciated Value |
| Box Wire Fencing on Metal/Wood Posts: | 150 LF | | \$4.25 | \$638 | 25% | \$478 |
| Chain Link Gates: | 1 EA | | \$250.00 | \$250 | 25% | \$188 |
| Landscaping - trees: | 1 LS | | \$500 | \$500 | 0% | \$500 |
| Cost New of Site Improvements: | | | | \$1,388 | | |
| Depreciated Cost of Site Improvements: | | | | | | \$1,166 |
| Total Accrued Depreciation of Site Improvements: | | | | | | \$222 |

FINAL CORRELATION AND CONCLUSION

The subject property has been analyzed in both the before and after the take scenario based upon the sales comparison approach to value. The part to be taken by Yavapai County for the right of way for widening of Williamson Valley Road consists of ±2,986 square feet. The subject property is improved with one single family residence, garage, carport, and associated site improvements. There was no finding of severance damages to the remaining property after the take. The final conclusions of the appraisal are summarized as follows:

| | | | |
|----|---|---|-------------|
| 1 | Value of Larger Parcel before Take: | = | \$64,015 |
| 2 | Less: Value of Part Taken: | = | -\$2,986 |
| 3 | Equals: Remainder Value before Take: | = | \$61,029 |
| | | | \$61,029 Rd |
| 4 | Less: Remainder Value after Take: | = | \$61,029 |
| 5 | Equals: Damages: | = | \$0 |
| 6 | Or (4) Minus (3) Equals: Special Benefits = | | \$0 ** |
| 7 | Net Damages: | = | \$0 * |
| 8 | Plus: Value of Part Taken: | = | \$2,986 |
| 9 | Equals: Total Difference: | = | \$2,986 |
| 10 | Depreciated Value of site Improvements: | = | \$1,166 Rd |
| 11 | Total Estimated Value Taken: | = | \$4,152 |

** No special benefits are created - differences due to method of adjustment - special benefits may not be used to offset value of part taken or damages.

* May not be less than 0

The final calculation of the total difference, according to the state rule is the combination of the value of the part taken plus damages for the property. The total difference in land value is equal to \$2,986.00 plus the estimated value of the site improvements to be taken of \$1,166.00 yields a total of \$4,152.00.

The "As Is" value, pertains to the value of the subject property, as it currently exists (vacant land), on the date of valuation. By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following Total Difference, for the subject parcel as of January 17, 2012 to be:

FEE SIMPLE
FOUR THOUSAND ONE HUNDRED FIFTY-TWO DOLLARS
(\$4,152.00)

VALUATION OF THE TEMPORARY CONSTRUCTION EASEMENT

In addition to the square footage taken, a temporary construction easement of 4,015 square feet will be required. This easement is adjacent to the proposed right of way taking along Short Spur Trail is necessary to allow for the construction of the new right of way. Typically, this type of easement is for the duration of the construction period only.

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

In the case of a temporary construction easement the proper measure of compensation is the value of the property for the period it is to be held by the condemnor. According to the Yavapai County, the time required would be for one (1) year from the time construction on the right of way commences. "The most common measure of damages accepted by the courts is the rental value of the easement area for the period of occupancy by the condemnor."¹⁶

Using the same price per square foot determined for the part taken for the TCE we find the following value estimate:

| Remainder SF | Price SF | Total Estimate |
|--------------|----------|----------------|
| 4,015 | \$1.00 | \$4,015.00 |

The above chart presents the value of the TCE based upon its location on the parcel. The total estimated value equals \$4,015.00. This would be the value of the TCE's if the takings were to be permanent. However, as previously stated, Yavapai County requires this easement for a period of one (1) year from the commencement of construction. *For the purpose of this analysis, commencement of construction is assumed to be the date of valuation.* Therefore, the method used to value the TCE's will be based upon an annual rate of return which will estimate the annual rental value of the land encompassed by the TCE's.

DESCRIPTION OF IMPROVEMENTS

Located within the proposed TCE area is approximately 130 lineal feet of metal box wire fencing on metal posts and wood posts along with minimal landscaping which will be impacted by this temporary construction easement. See Site Improvement table which follows:

| SITE IMPROVEMENTS COST SCHEDULE | | | | | |
|--|---------------|------------|----------|--------|-------------------|
| Item | Quantity Unit | Unit Price | Cost New | % Dep. | Depreciated Value |
| Box Wire Fencing on Metal/wood Posts: | 130 LF | \$4.25 | \$553 | 25% | \$414 |
| Landscaping - Trees/ground cover/gravel: | 1 LS | \$500 | \$500 | 0% | \$500 |
| Cost New of Site Improvements: | | | \$1,053 | | |
| Depreciated Cost of Site Improvements: | | | | | \$914 |
| Total Accrued Depreciation of Site Improvements: | | | | | \$138 |

RETURN ON INVESTMENT

In this procedure, the rent for the property is estimated based on an appropriate return on investment to the property owner. This method of estimating the market rent for the property is admittedly inbred with the cost approach. However, because the cost approach is favored in valuing such facilities, this procedure may provide a meaningful translation of the cost approach data into an income approach application. Therefore, this rent establishment procedure is also considered.

Interviews with several leasing agents, developers, and investors reveal that a common method of establishing rents for new, built to suit facilities is based on the actual cost required to create the

¹⁶ United States v. General Motors Corp., 323 U.S. 373 (1945).

facility. That is, the total cost for the acquisition of the land and the construction of the improvements is tabulated. A percentage of this amount, generally from 10% to 20% is then calculated and becomes the annual rent for the property. This formula is devised to provide a fair return on the property owner's investment, and is directly tied to the size and quality of the property.

While this method of rent establishment is common, no exact formula prevails. At the low end of the spectrum, the appraiser is aware of investors who calculate the rent based on 10% of the land value plus 12% of the cost of improvements. At the high end of the range is the 20% of both land and improvements typically used by a national fast food restaurant chain in establishing the rents for company owned facilities. These examples define the range of percentage returns which are appropriate in establishing the rental income for the subject property.

The following table (PriceWaterhouseCoopers fourth quarter 2011 Korpacz Investor Survey) summarizes prevailing capitalization and discount rates for net lease properties.

| Table 28 NATIONAL NET LEASE MARKET Fourth Quarter 2011 | | | |
|--|----------------|-----------------------|----------------|
| | CURRENT | LAST QUARTER YEAR AGO | |
| DISCOUNT RATE (IRR)* | | | |
| Range | 7.00% - 9.00% | 7.00% - 9.00% | 8.50% - 9.50% |
| Average | 8.16% | 7.97% | 8.41% |
| Change (Basis Points) | | + 10 | + 25 |
| OVERALL CAP RATE (OAR)* | | | |
| Range | 5.00% - 10.25% | 5.25% - 10.25% | 6.25% - 11.00% |
| Average | 7.59% | 8.13% | 8.64% |
| Change (Basis Points) | | - 54 | - 110 |

The average rate of return ranges from 7% to 9% is representative of internal rates of return for net lease properties. The average for all properties is 8.16%. The range of overall capitalization rates ranges from 5.00% to 10.25% with a mean of 7.59%.

The second table outlines the current internal rates of return sought for development land (second quarter 2011). The range cited is from 15% to 30% with a mean of 21.00%. This range is based upon developer's profit being included in the discount rate; however the survey fails to identify the percentage of developer's profit contained in the survey. If we remove a developer's profit of 10% the range becomes 5%-20%, with mean of 12.5%. The lower end of this range is an unreasonable expectation. The middle of this range may be more realistic.

| Exhibit 31 - 1 DISCOUNT RATES (IRRS)* Second Quarter 2011 | | |
|---|-----------------|---------------------|
| | CURRENT QUARTER | SECOND QUARTER 2010 |
| FREE & CLEAR | | |
| Range | 15.00% - 30.00% | 15.00% - 30.00% |
| Average | 21.00% | 21.63% |
| Change | | - 63 |

Based upon this a 10% rate of return is concluded for the subject property and is applied to the indicated land value. A higher rate of 12% (adds 2% to the land rate to allow for recapture of the improvement costs) will be used for the improvements.

The rent, which results from this return on investment formula, is calculated below.

| Item | Est. Value | % Return | Annual Rent |
|---------------|------------|----------|-------------|
| Land: | \$4,014 | 10% | \$401 |
| Improvements: | \$914 | 12% | \$110 |
| Total: | | | \$511 |

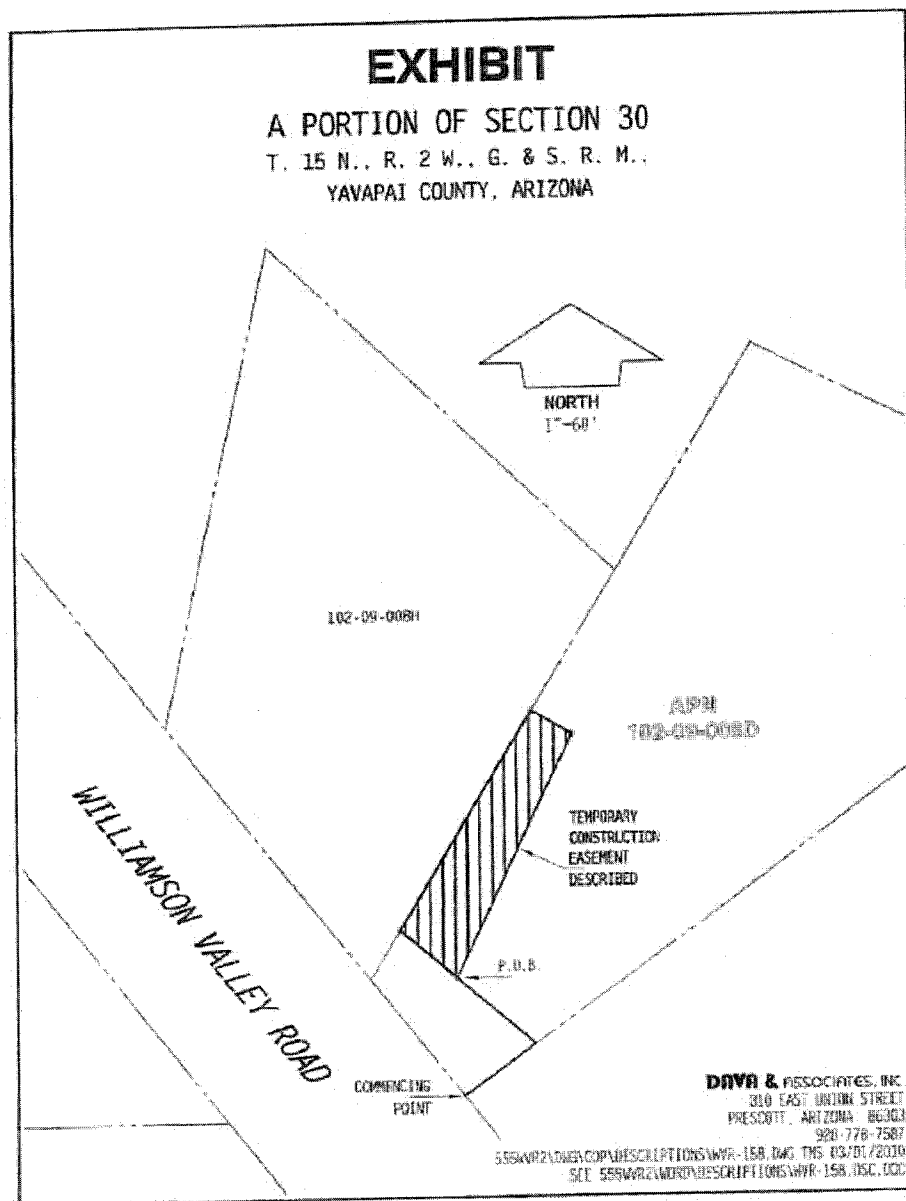
Conclusion of Value - TCE

The rent estimated for the subject property is \$511.00 for one year based upon the return on investment analysis.

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the temporary construction easement (TCE), for the subject parcel as of January 17, 2012 to be:

FIVE HUNDRED ELEVEN DOLLARS
(\$511.00)

TEMPORARY CONSTRUCTION EASEMENT EXHIBIT



VALUATION OF THE DRAINAGE EASEMENT

SITE DESCRIPTION - DRAINAGE EASEMENT

In addition to the ROW there is a drainage easement of $\pm 1,441$ (rd) square feet. This drainage easement is along the south property line close to Williamson Valley Road (see map). The easement is necessary in order for drainage water to be collected and transported along side of Williamson Valley Road. This easement could be referred to as a surface easement, although some disturbance below the surface is necessary for erosion control (culverts, riprap, etc.). However, in the subject case, the drainage area described in the easement is currently an existing drainage area through the parcel.

| Parcel # | Larger Parcel SF | ROW Taking SF | Remainder SF | TCE SF | Drainage Esm't SF |
|-------------|------------------|---------------|--------------|--------|-------------------|
| 102-09-008D | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |
| Total | 64,015 | 2,986 | 61,029 | 4,015 | 1,441 |

SITE VALUATION - DRAINAGE EASEMENT

The comparable land sales presented previously will be used as the basis of valuation for the remainder parcel after the take.

All the adjustments determined for the comparables in the "Before the Take" scenario remain the same. Therefore, the price per square foot is concluded to be the same for the drainage easement at \$1.00 per square foot.

Using the same price per square foot previously determined, we find the following value estimate for the drainage easement:

| Remainder SF | Price SF | Total Estimate |
|--------------|----------|----------------|
| 1,441 | \$1.00 | \$1,441 |

Based upon the foregoing analysis, that portion of the subject property associated with the proposed drainage easement has a fee simple market value of \$1,441.00. This value would represent the contributory value of this portion of the subject property to the overall total property value determined in the analysis of the larger parcel.

The proposed drainage easement impacts a portion of the bundle of rights associated with fee simple ownership, but not all. That portion of the subject property, which is proposed to be acquired as a drainage easement, is currently affected by topography which renders it unusable due to drainage. The proposed drainage easement merely formalizes that which currently exists. Therefore, the rights that are impacted would be minimal. The majority of the bundle of rights associated with using this portion of the site has been diminished by the topography of the drainage area. Nevertheless, the value estimated for this drainage easement uses the contributory value as if it were part of the larger parcel before the taking of the easement.

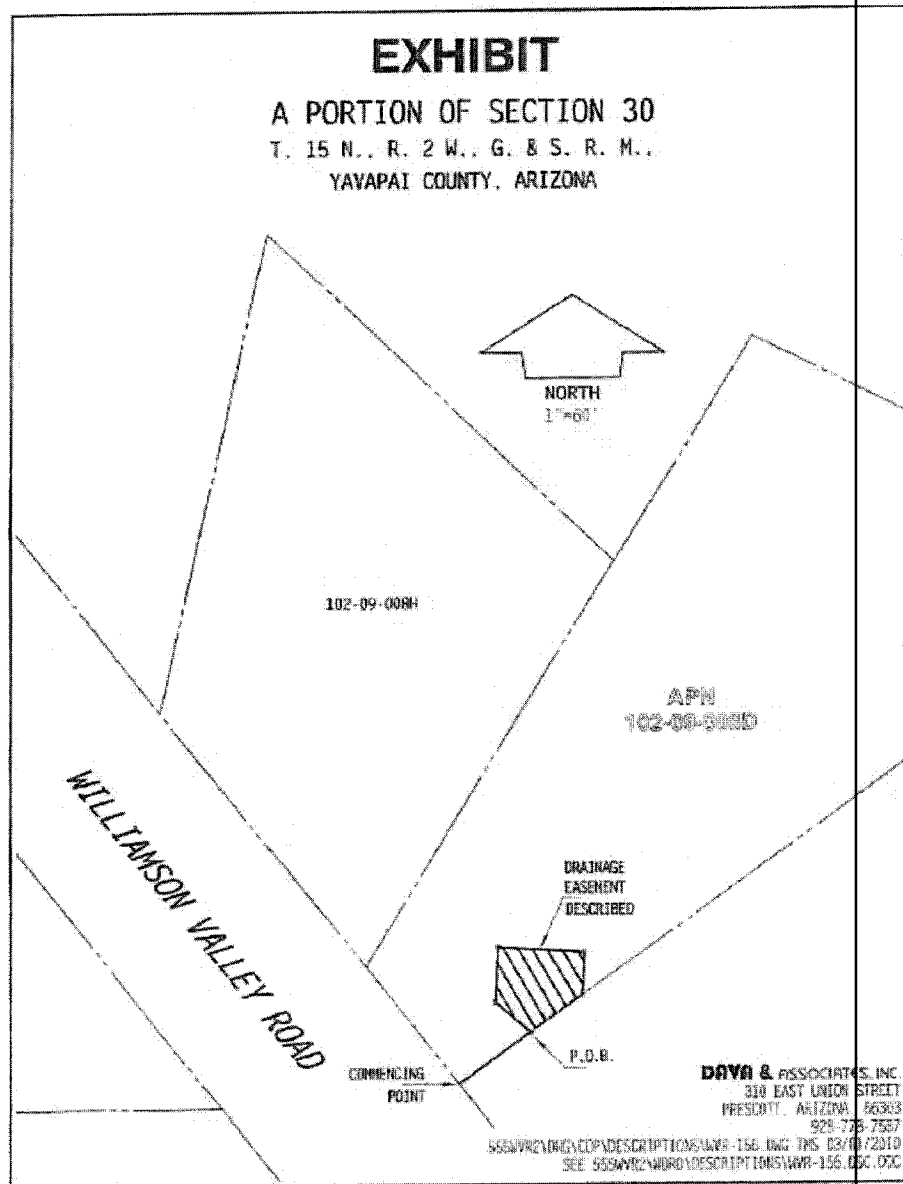
The rights affected are not easily quantifiable; however, in the absence of definitive data, the contributory value of this land area is used.

Conclusion – Drainage Easement Value

By reason of my investigation and having given careful consideration to the factors which affect market value (as defined in the Report), subject to the definitions, certifications, extraordinary assumptions, hypothetical conditions, and limiting conditions set forth in the attached Report, I have concluded the following value for the drainage easement, for the subject parcel as of January 17, 2012 to be:

ONE THOUSAND FOUR HUNDRED FORTY-ONE DOLLARS
(\$1,441.00)

DRAINAGE EASEMENT EXHIBIT



ADDENDA

SUBJECT PHOTOGRAPHS
TITLE REPORT EXCERPT
RIGHT OF WAY LEGAL AND MAP
TCE LEGAL AND MAP
DRAINAGE EASEMENT LEGAL AND MAP
STANDARD ASSUMPTIONS AND LIMITING CONDITIONS
APPRAISERS' QUALIFICATIONS

SUBJECT PHOTOGRAPHS

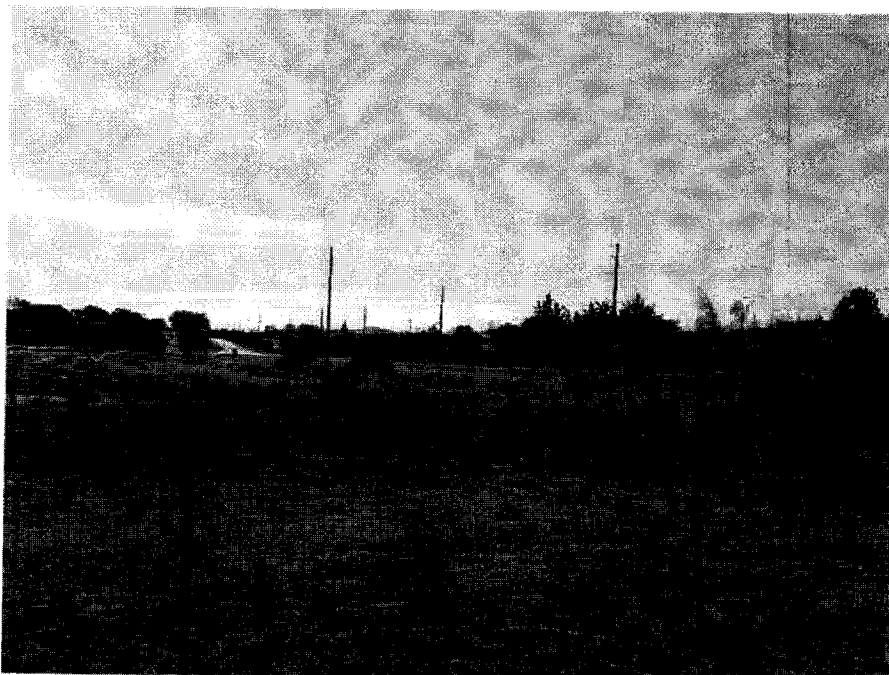


Parcel 102-09-008D looking southwesterly from Short Spur Trail

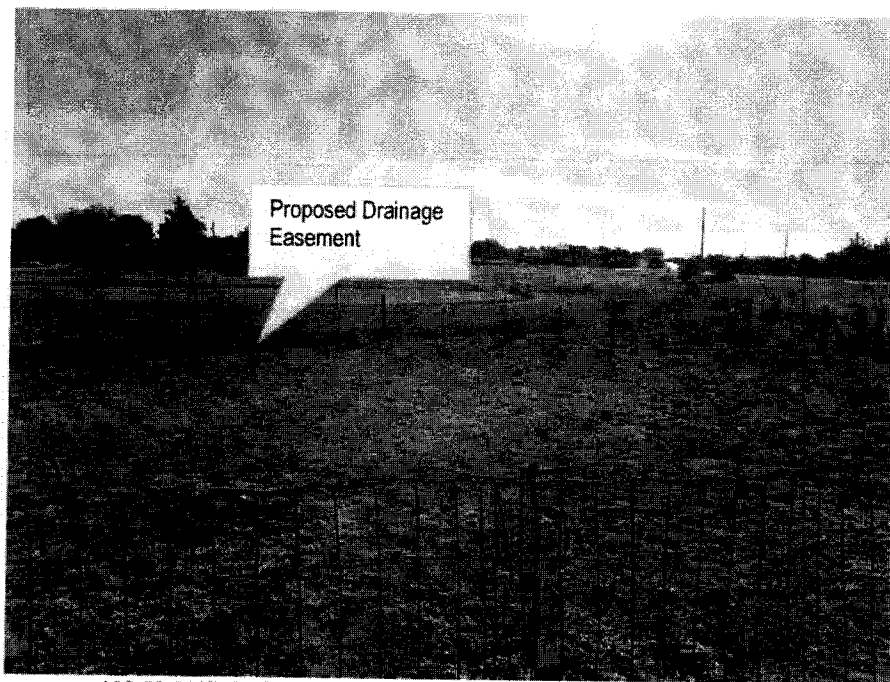


TCE looking westerly from Short Spur Trail - parcel 102-09-008D

SUBJECT PHOTOGRAPHS

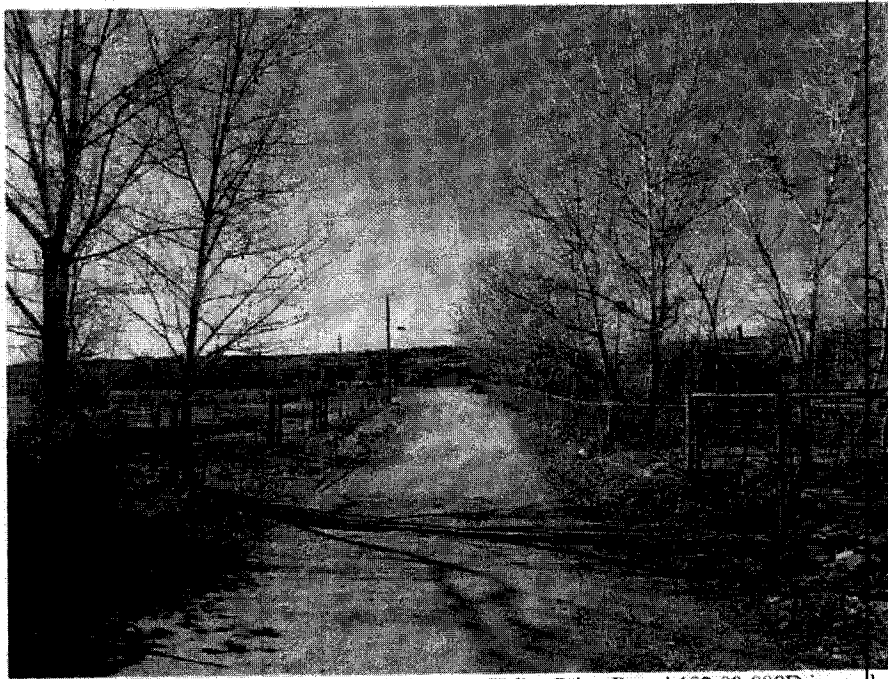


Parcel 102-09-008D proposed right of way along Williamson Valley Road looking southerly



102-09-008D looking southerly towards the proposed drainage easement

SUBJECT PHOTOGRAPHS



Short Spur Trail looking westerly towards Williamson Valley Rd. – Parcel 102-09-008D is on the left



Williamson Valley Road looking southerly from Short Spur Trail

Escrow Officer: **Karen Arthur**
Lawyers Title of Arizona, Inc
325 W Gurley Street
Suite 101
Prescott, Az 86301

COMMITMENT FOR TITLE INSURANCE
Issued by

Commonwealth Land Title Insurance Company

SCHEDULE A

1. Effective Date: **December 13, 2011** at 7:30 a.m. File No.: 01732964
2. Policy or Policies to be issued: **ALTA 2006 Std Owners Policy**
Proposed Insured: **Yavapai County**
Liability: **\$TO COME**
Policy or Policies to be issued: **None**
Proposed Insured:
Liability: **\$**
Policy or Policies to be issued: **None**
Proposed Insured:
Liability: **\$**
3. The estate or interest in the land described or referred to in the Commitment and covered herein is an easement.
4. Title to the said estate or interest in said land is at the Effective Date hereof vested in:
James E. Jordan, an unmarried man
5. The land referred to in this Commitment is situated in the County of Yavapai, State of ARIZONA, and is described as follows:
As fully set forth on "Exhibit A" attached hereto and by this reference incorporated herein

EXHIBIT "A"

Parcel I:

An easement for roadway over the following described property:

A portion of that parcel described in book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plats, page 20, in the Yavapai County Recorder's Office, and is identified by a ½" rebar with no cap or tag;

THENCE, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

THENCE, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

THENCE, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office;

THENCE, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the POINT OF BEGINNING.

Parcel II:

An easement for drainage over the following described property:

A portion of that parcel described in book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley

EXHIBIT "A"
(Continued)

Road, as shown in Book 18 of Maps and Plats, page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

THENCE, along the southeasterly boundary of that parcel described in Book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office, North 53°41'45" East, 44.59 feet to the POINT OF BEGINNING;

THENCE, departing the southeasterly boundary of said parcel, North 49°12'25" West, 23.47 feet;

THENCE, North 02°11'01" East, 28.03 feet;

THENCE, South 86°26'45" East, 43.30 feet;

THENCE, South 02°49'59" West, 22.01 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, page 50, in the Yavapai County Recorder's Office;

THENCE, along the southeasterly boundary of said parcel, South 53°41'45" West, 31.55 feet to the POINT OF BEGINNING.

SCHEDULE B - SECTION I REQUIREMENTS

The following are the requirements to be complied with prior to the issuance of said policy or policies. Any other instrument recorded subsequent to the date hereof may appear as an exception under Schedule B of the policy to be issued. Unless otherwise noted, all documents must be recorded in the office of the Recorder of the County in which said property is located.

1. Furnish proof that any outstanding municipal and/or county tax assessments which are due have been paid current.
2. RECORD certified copy of Resolution of the Board of Supervisors of the County of Yavapai authorizing execution and delivery of all instruments necessary to consummate this transaction.
3. Furnish for recordation a document creating the easement described below:

Grantor(s): James E. Jordan, an unmarried man
Grantee(s): Yavapai County
Purpose: as provided to this company

The easement to be created is subject to the review and approval of the Company's Underwriting Department.

The Company reserves the right to make additional requirements and/or charge additional fees for an easement search after such review.

4. Record Consent to Easement by party named below to easement referred to in this report

Name of Party: Mortgage Electronic Registration Systems, Inc.
Interest Disclosed by: Assignment of Deed of Trust
Recording No.: Book 4184 of Official Records, page 224

5. Record Consent to Easement by party named below to easement referred to in this report

Name of Party: Mortgage Electronic Registration Systems, Inc. as nominee for Secured Funding Corp, a California corporation
Interest Disclosed by: Deed of Trust
Recording No.: Book 4030 of Official Records, page 246

Tax Note:

Year: 2010
Tax Parcel No: 102-09-008D-3
Total Tax: \$1533.68
First Installment Amount: \$paid
Second Installment Amount: \$766.84

Note: Property address is purported to be known as: 2475 W. Short Spur Trail, Prescott, AZ 86305

**SCHEDULE B - SECTION I
REQUIREMENTS
(Continued)**

Note: The only conveyance(s) affecting said Land, which recorded within 24 months of the date of this report, or the last conveyance affecting said Land, are as follows:

| | |
|-----------------|---|
| Grantor: | Amy M. Jordan, an unmarried woman |
| Grantee: | James E. Jordan, an unmarried man |
| Recording Date: | October 01, 2010 |
| Recording No: | Book 4768 of Official Records, page 153 |

END OF SCHEDULE B - SECTION I

SCHEDULE B - SECTION II EXCEPTIONS

Schedule B of policy or policies to be issued will contain exceptions to the following matters unless the same are disposed of to the satisfaction of the Company:

A. DEFECTS, LIENS, ENCUMBRANCES, ADVERSE CLAIMS OR OTHER MATTERS, IF ANY, CREATED, FIRST APPEARING IN THE PUBLIC RECORDS OR ATTACHING SUBSEQUENT TO THE EFFECTIVE DATE BUT PRIOR TO THE DATE THE PROPOSED INSURED ACQUIRES FOR VALUE OF RECORD THE ESTATE OR INTEREST OR MORTGAGE THEREON COVERED BY THIS COMMITMENT.

1. Liabilities and obligations imposed upon said Land by its inclusion within any district formed pursuant to Title 48, Arizona Revised Statutes.
2. Property taxes, including any personal property taxes and any assessments collected with taxes, for the second installment of 2010 Taxes.
3. Property taxes, which are a lien not yet due and payable, including any assessments collected with taxes to be levied for the year 2011.
4. LIABILITIES AND OBLIGATIONS imposed upon said land by reason of its inclusion within the following named District:

Central Yavapai Volunteer Fire District
5. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 194 of Deeds
Page 26
Purpose Transmission lines
6. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 233 of Official Records
Page 171
Purpose Public highway
7. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 335 of Official Records
Page 353
8. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 871 of Official Records
Page 795
Purpose Water line
9. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 1127 of Official Records
Page 442
Purpose Roadway and utility purposes

10. EASEMENT and rights incident thereto, as set forth in instrument:

Recorded in Book 1138 of Official Records
Page 348
Purpose electric lines and poles

11. AGREEMENT, according to the terms and conditions, contained therein:

Purpose Road Maintenance
Dated February 10, 2000
Recorded February 18, 2000
Book 3733 of Official Records
Page 11

12. A deed of trust to secure an indebtedness in the amount shown below,

Amount: \$153,750.00
Dated: March 27, 2003
Trustor/Grantor James E. Jordan, a married man as his sole and separate property
Trustee: Fiesta Title Agency
Beneficiary: Union Planters Bank, N.A.
Loan No.: not set out
Recording Date: April 01, 2003
Recording No: Book 4016 of Official Records, page 732

An assignment of the beneficial interest under said deed of trust which names:

Assignee: Mortgage Electronic Registration Systems, Inc.
Loan No.: 1687550965
Recording Date: September 07, 2004
Recording No: Book 4184 of Official Records, page 224

13. An Equity Line deed of trust to secure an indebtedness in the amount shown below,

Amount: \$51,250.00
Dated: May 02, 2003
Trustor/Grantor James E. Jordan, a married man as his sole and separate property
Trustee: Transnation Title Insurance Company
Beneficiary: Mortgage Electronic Registration Systems, Inc. as nominee for Secured Funding Corp., a California corporation
Loan No.: 80001279
Recording Date: May 09, 2003
Recording No: Book 4030 of Official Records, page 246

END OF SCHEDULE B - SECTION II

102-09-008D RIGHT-OF-WAY

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

thence, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the **POINT OF BEGINNING**.

This description yields 2,986 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.

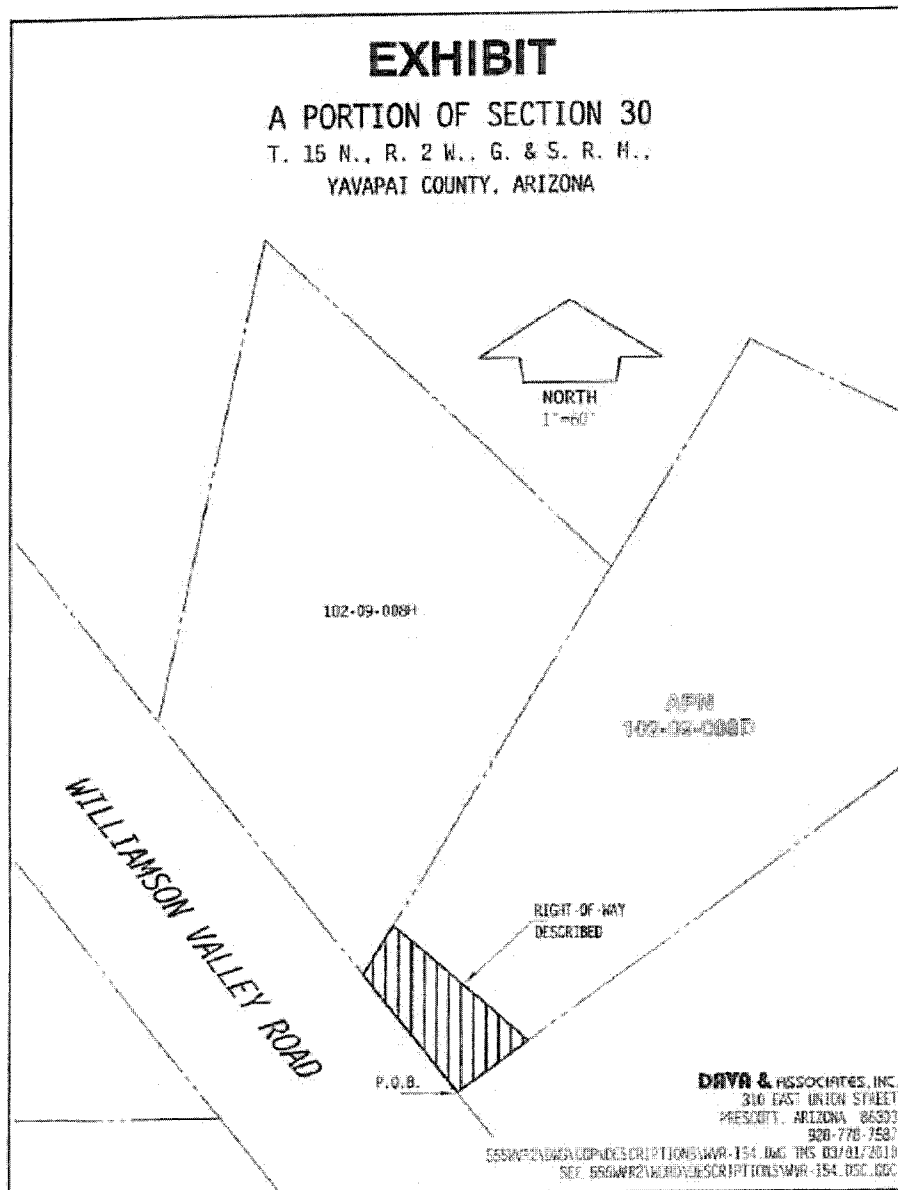


Thomas G. Callahan
EXPIRES 6/30/2011

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22 February, 2010

Pg. 1 of 1



102-09-008D TEMPORARY CONSTRUCTION EASEMENT

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, North 53°41'45" East, 44.59 feet;

thence, departing the southeasterly boundary of said parcel, North 49°12'25" West, 52.17 feet to the **POINT OF BEGINNING**.

Thence, North 49°12'25" West, 37.68 feet, to a point on the northwesterly boundary of said parcel;

thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 129.63 feet;

thence, departing the northwesterly boundary of said parcel, South 58°57'54" East, 23.65 feet;

thence, South 25°16'17" West, 136.71 feet to the **POINT OF BEGINNING**.

This description yields 4,014 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



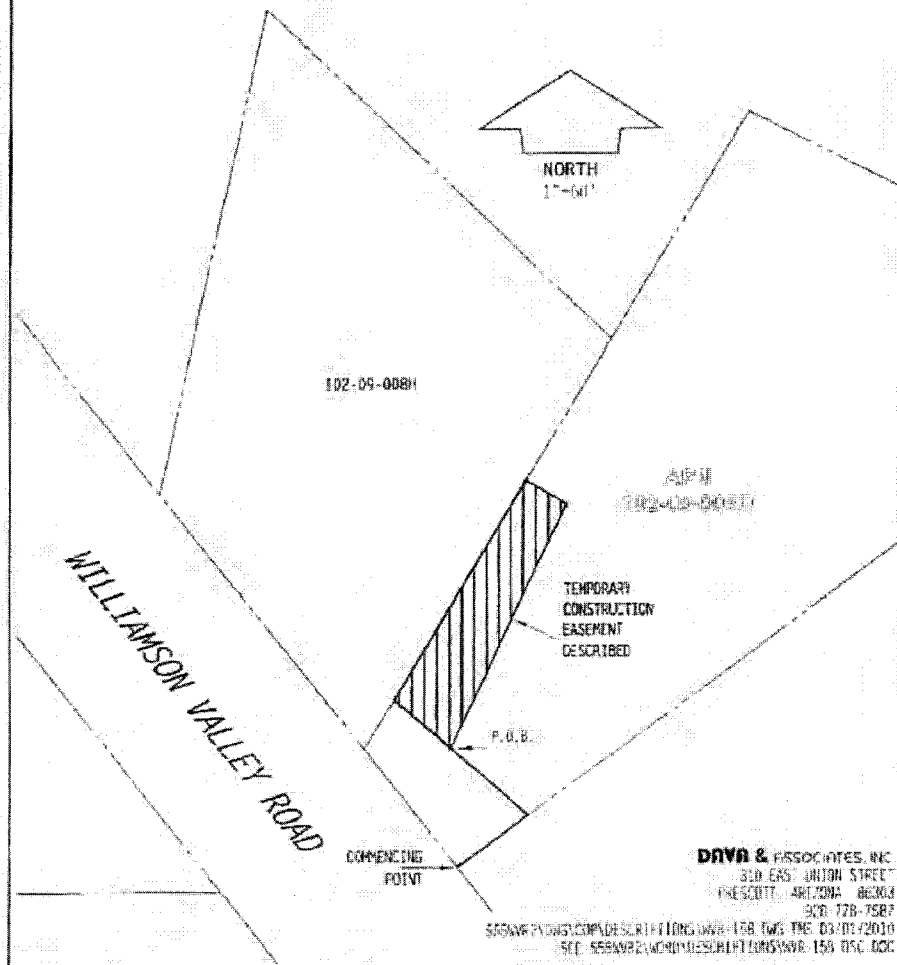
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22 February, 2010

Pg. 1 of 1

EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA



102-09-008D DRAINAGE EASEMENT

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, North 53°41'45" East, 44.59 feet to the **POINT OF BEGINNING**.

Thence, departing the southeasterly boundary of said parcel, North 49°12'25" West, 23.47 feet;

thence, North 02°11'01" East, 28.03 feet;

thence, South 86°26'45" East, 43.30 feet;

thence, South 02°49'59" West, 22.01 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 31.55 feet to the **POINT OF BEGINNING**.

This description yields 1,441 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



EXPIRES 6/30/2011

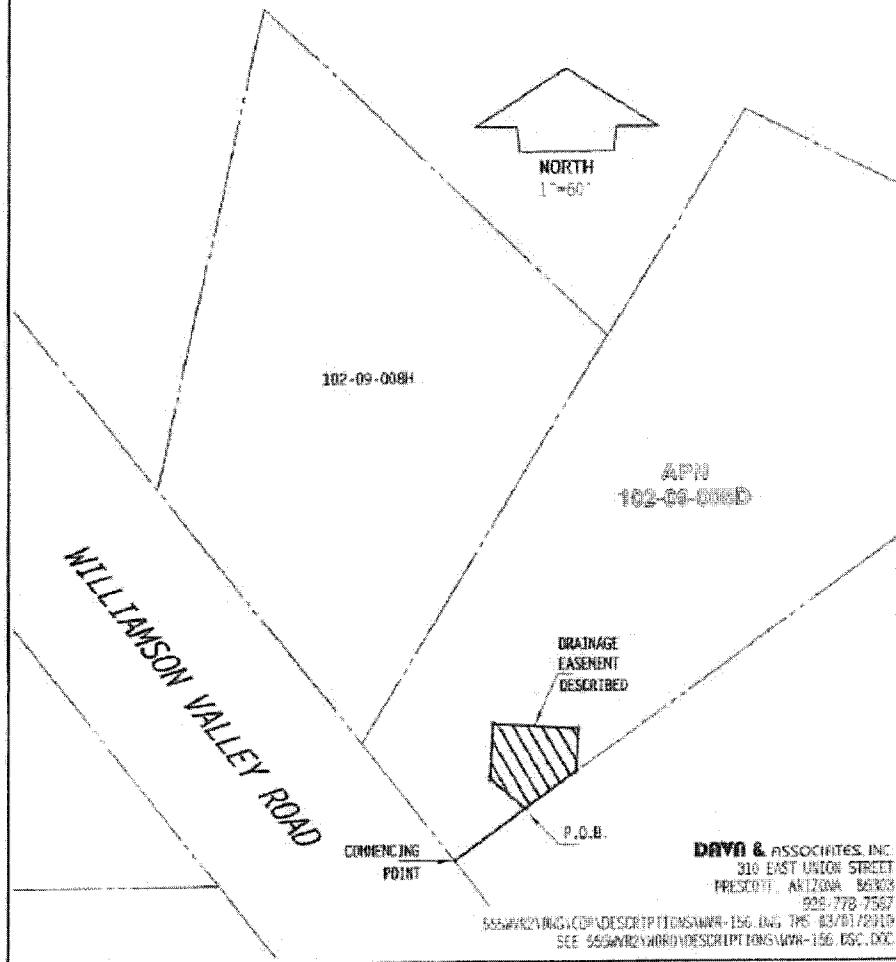
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22 February, 2010

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EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA



STANDARD ASSUMPTIONS AND LIMITING CONDITIONS

By this notice, all persons and firms reviewing, utilizing or relying on this report in any manner bind themselves to accept these assumptions and limiting conditions. Do not use this report if you do not so accept. These conditions are a part of the appraisal report, they are a preface to any certification, definition, fact or analysis, and are intended to establish as a matter of record that the appraiser's function is to provide a present market value for the subject property based upon the appraiser's observations as to the subject property and real estate market. This appraisal report is an economic study to estimate value as defined in it. It is not an engineering, construction, legal or architectural study nor survey and expertise in these areas, among others, is not implied.

The results of the appraisal are reported in a Summary Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice.

1. LIMIT OF LIABILITY: The liability of Appraisal Consultants, Inc. and employees and affiliated independent contractors is limited to the client only and to the fee actually received by the appraiser (total per appraisal). Furthermore, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than client, the client shall make such party aware of all limiting conditions and assumptions of the assignments and related discussions. The Appraiser is in no way to be responsible for any costs incurred to discover or correct any deficiencies of any type present in the property, physically, financially, and/or legally. In the case of limited partnerships of syndication offerings or stock offerings in real estate, the client agrees that in case of a lawsuit (brought by the lender, partner or part owner in any form of ownership, tenant, or other party), any and all awards, settlements of any type in such suit, regardless of outcome, the client will hold the Appraiser completely harmless in any such action.

2. COPIES, PUBLICATION, DISTRIBUTION, USE OF REPORT: Possession of this report or any copy thereof does not carry with it the right of publication, nor may it be used for other than its intended use; the physical report(s) remain the property of the Appraiser for the use of the client, the fee being for the analytical services only. The Bylaws and Regulations of the Appraisal Institute require each Member and Candidate to control the use and distribution of each appraisal report signed by such Member or Candidate. Except as hereinafter provided, the client may distribute copies of this appraisal report in its entirety to such third parties as he may select; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Neither all nor any part of this appraisal report shall be disseminated to the general public for use by the advertising media, public relations, news, sales or other media for public communication without the prior written consent of the Appraiser.

3. CONFIDENTIALITY: This appraisal is to be used only in its entirety and no part is to be used without the whole report. All conclusions and opinions concerning the analysis as set forth in the report were prepared by the Appraiser(s) whose signature(s) appears on the appraisal report, unless indicated as "Review Appraiser". No change of any item in the report shall be made by anyone other than the Appraiser and/or officer of the firm. The Appraiser and firm shall have no responsibility if any such unauthorized change is made.

The Appraiser may not divulge the material (evaluation) contents of the report, analytical findings or conclusions, or give a copy of the report to anyone other than the client or his designate as specified in writing except as may be required by the Appraisal Institute as they may request in confidence for ethics enforcement, or by a court of law or body with the power of subpoena.

4. TRADE SECRETS: This appraisal was obtained from Appraisal Consultants, Inc. or related companies and/or its individuals of related independent contractors and consists of "trade secrets and commercial or financial information" which is privileged and confidential and exempt from disclosure under 4 U.S.C. 552 (b) (4). (Notify the Appraiser(s) signing report or an officer of Appraisal Consultants, Inc. of any request to reproduce this report in whole or part.)

5. INFORMATION USED: No responsibility is assumed for accuracy of information furnished by the work of others, the client, his designate or public records. We are not liable for such information or the work of possible subcontractors. Be advised that some of the people associated with Appraisal Consultants, Inc. and possibly signing the report are independent contractors. The comparable data relied upon in this report has been confirmed with one or more parties familiar with the transaction or from affidavit or other sources thought reasonable; all are considered appropriate for inclusion to the best of our factual judgment and knowledge. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market related information. (It is suggested that the client consider independent verification as prerequisite to any transaction involving sale, lease, or other significant commitment of funds on the subject property.)

6. TESTIMONY, CONSULTATION, COMPLETION OF CONTRACT FOR APPRAISAL SERVICE: The contract for appraisal, consultation or analytical service is fulfilled, and the total fee is payable upon completion of the report. The Appraiser(s) or those assisting in preparation of the report will not be asked or required to give testimony in court or hearing because of having made the appraisal, in full or in part, nor engage in post appraisal consultation with client or third parties except under separate and special arrangement and at additional fee. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges regardless of issuing party.

7. EXHIBITS: The sketches and maps in this report are included to assist the reader in visualizing the property and are not necessarily to scale. Various photos may be included for the same purpose. Site plans are not surveys unless shown from a separate surveyor.

8. LEGAL, ENGINEERING, FINANCIAL, STRUCTURAL, OR MECHANICAL, HIDDEN COMPONENTS, SOIL: The Appraiser and/or firm has no responsibility for matters legal in character or nature, nor of any architectural, structural, mechanical, or engineering nature. No opinion is rendered as to the title, which is presumed to be good and merchantable. The property is appraised as if free and clear, unless otherwise stated in particular parts of the report.

The legal description is assumed to be correct as used in this report as furnished by the client, his designate, or as derived by the Appraiser.

Please note that no advice is given regarding mechanical equipment or structural integrity or adequacy, nor soils and potential for settlement, drainage, and such (seek assistance from qualified architect and/or engineer) nor matters concerning liens, title status, and legal marketability (seek

legal assistance and such. The lender and owner should inspect the property before any disbursement of funds; further it is likely that the lender or owner may wish to require mechanical or structural inspections by a qualified and licensed contractor, civil or structural engineer, architect, or other expert.

The Appraiser has inspected as far as possible, by observation, the land and the improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural or other components. We have not critically inspected mechanical components within the improvements and no representation is made herein as to these matters unless specifically stated. Unless stated, the value estimate assumes no such conditions that would cause a loss of value. The land or the soil of the area being appraised appears firm; however, the Appraiser(s) do not warrant against this condition or occurrence of problems arising from soil conditions.

The appraisal is based on there being no hidden, unapparent conditions of the property site, subsoil, structures or toxic materials which would render it more or less valuable. The appraiser and firm have no responsibility for any such conditions or for any expertise or engineering to discover them. Conditions of heating, cooling, ventilation, electrical and plumbing equipment are considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. No judgment may be made by us as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment which is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above mentioned items.

The Appraiser has no responsibility for any costs or consequences arising due to the need or the lack of need for flood hazard insurance. An Agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.

9. LEGALITY OF USE: The appraisal is based on the premise that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in the report; further, that all applicable zoning, building, use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority whether local, state, federal and/or private, have been or can be obtained or renewed for any use considered in the value estimate.

10. COMPONENT VALUES: The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

11. AUXILIARY AND RELATED STUDIES: No environmental or impact studies, special market study of analysis, highest and best use analysis study or feasibility study has been requested or made unless otherwise specified in an agreement for services or in the report.

12. DOLLAR VALUES, PURCHASING POWER: The market value estimated, and the costs used, are as of the date of the estimate of value. All dollar amounts are based on the purchasing power and the price of the dollar as of the date of the value estimate.

13. EXCLUSIONS: Furnishings, equipment, personal property and business operations, except as specifically indicated or if typically considered a part of the real estate, have been disregarded. Only the real estate is considered in the value estimate unless otherwise stated. In some property types, business and real estate interests and values are combined.

14. PROPOSED IMPROVEMENTS: Proposed improvements and repairs are assumed to be completed in good and workmanlike manner according to information submitted and/or considered by the appraisers. The estimate of market value is as of the date shown and assumes completion as described in the report. Completion significantly different than described may change the value estimate.

15. VALUE CHANGE, DYNAMIC MARKET, INFLUENCES, ALTERATION OF ESTIMATE BY APPRAISER: The estimated market value, which is defined in the report, is subject to change with market changes over time; value is highly related to exposure, time, promotional effort, terms, motivation, and conditions surrounding the offering. The value estimate considers the productivity and relative attractiveness of the property physically and economically in the marketplace.

In cases of appraisals involving the capitalization of income benefits, the estimate of market value, investment value, or value in use is a reflection of such benefits and Appraiser's interpretation of income and yields and other factors derived from general and specific client and market information. Such estimates are as of the date of valuation and are subject to changing market conditions.

The "Estimate of Market Value" in the appraisal report is not based in whole or in part upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

The appraisal report and value estimate are subject to change if the physical or legal entity, or financing are different than that envisioned in this report.

16. MANAGEMENT OF THE PROPERTY: It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management; neither inefficient nor super-efficient.

17. CONTINUING EDUCATION CURRENT: The Appraisal Institute conducts voluntary programs of continuing education for their designated members; MAI and SRPA Designates who meet the minimum standards of this program are awarded periodic educational certification. The MAI(s)/SRPA(s) signing this report is/are currently certified under the program(s).

18. FEE: The fee for this appraisal or study is for the service rendered and not for the time spent on the physical report or the physical report itself. The fee for services is not contingent on any predetermined result or approved amount.

19. AUTHENTIC COPIES: The authentic copies of this report have original signatures of the appraiser(s) completing the report. Any copy that does not have the above is unauthorized and may have been altered.

20. INSULATION AND TOXIC MATERIALS: Unless otherwise stated in this report, the Appraiser(s) signing this report has (have) no knowledge concerning the presence or absence of toxic or materials and/or urea-formaldehyde foam insulation in existing improvements; if such is present the value of the property may be adversely affected. The existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser unless otherwise stated. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, radon gas, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

21. REVIEW: Unless otherwise noted herein, named review Appraiser of/from Appraisal Consultants, Inc., has reviewed the report and has not necessarily inspected the subject nor market comparable properties.

22. CHANGES, MODIFICATIONS: The Appraisers and/or officers of Appraisal Consultants, Inc. reserve the right to alter statements, analyses, conclusions or any value estimates in the appraisal if facts pertinent to the appraisal process become known which were unknown to us when the report was finished.

23. AFTER TAX ANALYSIS, AND/OR VALUATION: Any "after" tax income or investment analysis and resultant measures of return on investment are intended to reflect only possible and general market considerations, whether as part of estimating value or possible returns on investment at an assumed value or price paid. Note that the Appraiser(s) does not claim expertise in tax matters and advises the client and any other using the appraisal to seek competent tax advice as the Appraiser is in no way to be considered a tax advisor or investment advisor.

Acceptance of, and/or use of, this appraisal report by the client or any third party constitutes acceptance of the above conditions. Appraiser liability extends only to the stated client and not to subsequent parties or users of any type, and the total liability of appraiser and firm is limited to the amount of fee received by the Appraiser.

QUALIFICATIONS OF RUSSELL L. PARKER, MAI
Certified General Real Estate Appraiser, Certificate No. 30143

EDUCATION

Masters of Arts in Theology - Fuller Theological Seminary, 2006, Major Biblical Studies & Theology
Bachelor of Science Business Administration, Northern Arizona University, 1975, Major: Economics
Associate of Arts, El Camino College, 1972, Major: Accounting
SREA, Narrative Report Seminar, 1977, Completed and Passed
SREA, R-2 Exam, 1977, Passed
SREA, Exam 101, Introduction to Appraising Real Property, 1978, Passed
SREA, Course 201, "Principles of Income Property Appraising", 1983, Completed and Passed
SREA, Course 202, "Applied Income Property Valuation", 1983, Completed and Passed
AIREA, Exam 1A1, "Real Estate Appraisal Principals", 1985, Passed
AIREA, Exam 1A2, "Basic Valuation Procedures", 1985, Passed
AIREA, Exam 1BA, "Capitalization Theory and Techniques, Part A", 1985, Passed
AIREA, Course 1BB, "Capitalization Theory and Techniques, Part B", 1985, Completed and Passed
AIREA, Exam 2-2, "Valuation Analysis and Report Writing", 1985, Passed
AIREA, Exam 2-1, "Case Studies in Real Estate Valuation", 1985, Passed
AIREA, Course 2-3, "Standards of Professional Practice", 1985, Completed and Passed
AIREA, Course 3, "Rural Valuation", 1985, Completed and Passed
AIREA, Course 10, "Market Research", 1987, Attended
AIREA, Seminar "R-41c", 1987, Attended
SREA, Seminar "Uniform Residential Appraisal Report", 1987, Attended
AIREA, Seminar "Appraising for Pension Portfolios", 1987, Attended
AIREA, Seminar "Subdivision Analysis", 1987, Attended
SREA, Seminar "Standards of Professional Practice", 1988, Attended
AIREA, Course 6, "Computer Assisted Investment Analysis", 1988, Attended
AIREA, Seminar "Standards of Professional Practice", 1989, Attended
RTC, Seminar "RTC Appraisal Seminar", December, 1990
APPRAISAL INSTITUTE, Seminar "Uniform Standards of Professional Appraisal
APPRAISAL INSTITUTE, "Capitalization Theory and Techniques, Part A", July, 1992, Attended
APPRAISAL INSTITUTE, "Market Analysis", June, 1994
APPRAISAL INSTITUTE, "Advanced Applications" Course 550, Attended June 1995
APPRAISAL INSTITUTE, "Standards of Professional Practice" Part B, October, 1995
APPRAISAL INSTITUTE, "Eminent Domain and Condemnation Appraising" September, 1997 Attended
APPRAISAL INSTITUTE, "On-line Internet Search Strategies for Real Estate Appraisers", July 1998
APPRAISAL INSTITUTE, "Residential Design and Functional Utility", August 1998
APPRAISAL INSTITUTE, "Federal Land Exchanges & Acquisitions", April, 2000, Attended
APPRAISAL INSTITUTE, "520 - Highest & Best Use & Market Analysis", September, 2000, Attended
APPRAISAL INSTITUTE, "430 - Standards of Prof. Practice, Part C", September, 2000, Completed
APPRAISAL INSTITUTE, "Evaluating Commercial Construction", March 2004, Attended
APPRAISAL INSTITUTE, "Land Valuation Adjustments", March 2004, Attended
APPRAISAL INSTITUTE, "USPAP update", July 2004, Attended
APPRAISAL INSTITUTE, "420- Business Practices and Ethics", October 2005
APPRAISAL INSTITUTE, "What Clients Would Like Their Appraiser's to Know", November 2005
APPRAISAL INSTITUTE, "USPAP - 2006, June 2006
APPRAISAL INSTITUTE, "Online Analyzing Operating Expenses", June 2008
APPRAISAL INSTITUTE, "USPAP - 2008, July 2008
APPRAISAL INSTITUTE, "Feasibility, Market Value, Investment Timing: Option Value", July 2008
APPRAISAL INSTITUTE, "Online Valuation of Detrimental Conditions in Real Estate", July 2008
APPRAISAL INSTITUTE, Appraisal Challenges: Declining Markets and Sales Concession, March 2010
APPRAISAL INSTITUTE, Office Building Valuation: A contemporary Perspective, April 2010
APPRAISAL INSTITUTE, USPAP update - 2010-2011, May 2010
APPRAISAL INSTITUTE, Forecasting Revenue, July 2010
APPRAISAL INSTITUTE, "Online Business Practices and Ethics", October 2010
APPRAISAL INSTITUTE, "Feasibility, Market Value, Investment Timing: Option Value", December 2010
APPRAISAL INSTITUTE, "Online Comparative Analysis", December 2010
APPRAISAL INSTITUTE, "Online Eminent Domain and Condemnation", December 2010
APPRAISAL INSTITUTE, "Online Marshall & Swift Commercial Cost Training", January 2011

QUALIFICATIONS OF RUSSELL L. PARKER, MAI (CONTINUED)

Page 2

PROFESSIONAL EXPERIENCE

President, Appraisal Consultants, Inc.
Office located at 2108 Santa Fe Springs, Prescott, Arizona 86305. Telephone (928) 445-5541. 6/86 - Present.
Principal of Russell L. Parker Company, 9/81-6/86.
Principal "Partner" in Norred & Parker Real Estate Appraiser; 2/79-9/81.
Associate Real Estate Appraiser, Scholten & Associates; 7/76-2/79.
Director of Yavapai County Planning & Zoning Department; 5/75-7/76.
Associate Real Estate Appraiser, Scholten & Associates; 7/73-5/75.
Staff Appraiser, World Savings & Loan Association, Lynwood, CA; 8/72-7/73.

PROFESSIONAL DESIGNATIONS

Member Appraisal Institute (MAI)

STATE CERTIFICATION

Arizona - Certified General Real Estate Appraiser, Certificate # 30143

PROFESSIONAL SERVICE

Chairman of Yavapai County Planning & Zoning Commission, 1990
Regional Governor, NAIFA, Appointed 1984 - 1985
National Director, NAIFA, Appointed 1985
Chairman of NAIFA National Publication Committee, 1984

COURT TESTIMONY

Qualified as an expert witness in court proceedings:
Yavapai County Superior Court, Division I and II
Mohave County Superior Court
Federal Bankruptcy Court
Arizona Corporation Commission Securities Division

SCOPE OF WORK

Market Research Studies, Marketability Study, Investment and Feasibility Analysis. Real Estate Appraisal of Residential, Subdivisions, Commercial and Industrial Properties, Farms, Acreage, Special Purpose Properties, Easement/Right-of-way. Eminent Domain Valuation.

Partial Client List

The Arizona Bank (Now Bank of America)
American Bank
AVCO Financial Services
Babbitt Brothers Trading Company
Bank of America
Bank One Arizona
Bank of Prescott (Now Bank of America)
Bureau of Indian Affairs, U.S. Department of Interior

QUALIFICATIONS OF RUSSELL L. PARKER, MAI (CONTINUED)

Page 3

Partial Client List (Con't)

Citibank (Now Norwest Bank)
City of Prescott
Arizona Business Bank
Bank One
Bank of America
City of Prescott
Compass Bank
County Mortgage
County Bank (now National Bank of Arizona)
Country Bank
Equitable Life and Casualty
FDIC
First American Title Company
First Interstate Bank
First National Bank of Amarillo, Texas
Forest Service
Founder's Bank
Frontier State Bank
Government Services Administration (GSA), U.S. Government
Great Western Bank (Now Norwest Bank)
Harris Trust Bank
Horizon Development Company
Javenthol & Horwath
M & I Trust
M & I Bank
MeraBank (Now Bank of America)
Mohave Savings
National Bank of Arizona
Navajo Petroleum
Peabody Mining Company
Pinetop/Lakeside School District
Pima Savings & Loan
Rawlins, Burris, Lewkowicz & Fienstien, Attorneys
Resolution Trust Corporation (RTC)
Security Pacific Bank (Now Bank of America)
Southwest Savings & Loan - (Now Bank of America)
State of Arizona
Stockmen's Bank
Summitt Bank
Town of Prescott Valley
Texas First State Bank
Toci, Murphy, and Beck, Attorneys
Transamerica Financial Services
Transamerica Mortgage Company
Valley National Bank (Now Bank One Arizona)
Walraven and Roberts, Attorneys
Wells Fargo Bank
Western Savings & Loan (Now Bank of America)
Yavapai County
1st National Bank of Arizona

5. **GENERAL PROVISIONS.**

A. **Entire Agreement, Amendments and Assignments.** This Agreement contains the entire agreement between Seller and Buyer. This Agreement including the attached exhibits which are incorporated herein by reference may not be amended or modified except in writing signed by both parties.

B. **Time of the Essence.** Time is of the essence in the performance of this Agreement.

C. **Partial Invalidity.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability for the remainder of this Agreement.

Seller:


Jonathan M. Duke

Date: April 27, 2013

Seller:


Shauna L. Duke

Date: April 27, 2013

Buyer:

**YAVAPAI COUNTY, a political subdivision
of the State of Arizona**

by _____
Arlo G. Davis, Chairman
Yavapai County Board of Supervisors

Date: _____

EXHIBIT "A"

EASEMENT

THIS INDENTURE, made this _____ day of _____, 20__, by and between _____ and _____, whose address is _____ hereinafter designated the Grantor, and YAVAPAI COUNTY, a political subdivision of the State of Arizona, hereinafter designated as the Grantee.

RECITALS:

The Grantee requires a public right-of-way over and perpetual easement across a parcel of land belonging to the Grantor, upon which the Grantee may construct and maintain hereafter a public highway, and all incidents thereto, together with the right to authorize, permit and license the use thereof for utilities or other public purposes not inconsistent with its primary use as a highway.

The Grantor does hereby grant to the Grantee a perpetual easement for such purposes, subject, however, to the reservations, provisions and conditions hereinafter contained, and said Grantor does hereby approve the location of said highway and consents to the establishment thereof over said land; and does hereby release the said County of Yavapai from, and waives all claims for damage or compensation for and on account of the establishment and construction of said highway other than set forth herein.

CONSIDERATION:

In consideration of the premises, covenants, and conditions to be kept and performed by the Grantee and the further consideration of the sum of One (\$1.00) Dollar, and other good and valuable consideration, receipt whereof is hereby acknowledged, the Grantor does hereby grant a perpetual easement and does by these presents convey to the use of the Grantee forever, that certain strip, tract, or parcel of land and real estate situated in Yavapai County, Arizona, and more particularly described as follows:

SEE ATTACHED EXHIBIT "A"

EXEMPT from the Affidavit of Value Requirements by virtue of A.R.S. §11-1134A(3).

TO HAVE AND TO HOLD the same forever, together with any temporary rights of way over, upon and across lands of the Grantor that may be required for the purpose of, or in the course of construction and repair of said highway, provided that the Grantee complies with, keeps, and carries out the following stipulations and conditions which run with and are attached to all right and interest granted herein:

CONDITIONS:

1. That said parcel of land shall be used for no other purposes than those herein set forth.
2. That the Grantee shall and will repair any improvements belonging to the Grantor that may be damaged by the Grantee during the construction of said highway except those for which Grantor has been paid.
3. That all grants, covenants and provisions herein contained shall be binding on and inure to the benefit of the heirs, successors, and assigns of the parties hereto.

Construction plans approved by the Grantor are available for viewing at Yavapai County Public Works, 1100 Commerce Drive, Prescott, AZ 86305.

IN WITNESS WHEREOF, this instrument has been duly signed and executed by the Grantor the day and year first above written.

DO NOT SIGN

EXHIBIT ONLY

STATE OF ARIZONA)

) ss.

COUNTY OF YAVAPAI)

This instrument was duly acknowledged before me this _____ day of _____, 20____,
by _____ for the purpose and consideration therein mentioned.

Notary Public

My Commission expires _____

STATE OF ARIZONA)

) ss.

COUNTY OF YAVAPAI)

This instrument was duly acknowledged before me this _____ day of _____, 20____,
by _____ for the purpose and consideration therein mentioned.

Notary Public

My Commission expires _____

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

310 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D RIGHT-OF-WAY

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southwesterly boundary of said parcel, and the northeast right-of-way of said Williamson Valley Road, North 37°57'59" West, 76.39 feet to the most westerly corner of said parcel;

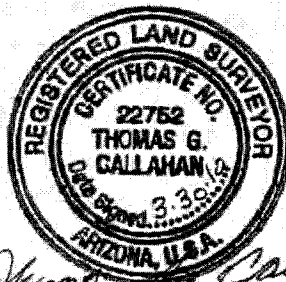
thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 29.00 feet;

thence, departing the northwesterly boundary of said parcel, South 49°12'25" East, 89.85 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 44.59 feet to the **POINT OF BEGINNING**.

This description yields 2,986 square feet.

I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



EXPIRES 6/30/2011

EASEMENT PURCHASE AGREEMENT

THIS AGREEMENT is between, JONATHAN M. DUKE and SHAUNA L. DUKE, husband and wife ("Seller") and YAVAPAI COUNTY, a political subdivision of the State of Arizona ("Buyer"). Seller and Buyer agree as follows:

1. **PURCHASE OF EASEMENT.** Seller agrees to grant a perpetual public roadway easement ("Easement"), a perpetual drainage easement ("Drainage Easement") and a temporary right of entry ("TRE") to the Buyer and Buyer agrees to purchase said easement(s) with respect to certain real property located in Yavapai County, Arizona, currently known as Assessor's Parcel No. **102-09-008D**, located at 2475 W. Short Spur Trail, Prescott, AZ 86305 and as described below in numbered paragraph 3.

2. **PURCHASE PRICE.** The total area needed is 2,986 square feet for the new Easement, 1,441 square feet for the Drainage Easement, and 4,014 square feet for the TRE. Seller will also be paid for certain improvements which will be affected by the project. Seller agrees to grant the required easement(s) to Buyer for the following consideration:

| | | |
|----|----------------------------------|----------|
| A. | Easement for public right of way | \$ 2,986 |
| B. | Drainage Easement | 1,441 |
| C. | TRE | 511 |
| D. | Allowance for improvements | 2,393 |
| | Total purchase price: | \$ 7,331 |

3. **CONDITIONS OF SALE.**

- A. Seller shall provide an Easement in the form attached hereto as Exhibit "A".
- B. Seller shall provide a Drainage Easement in the form attached hereto as Exhibit "B".
- C. Seller shall provide a TRE in the form attached hereto as Exhibit "C".
- D. Seller hereby approves the project construction plans relative to Seller's parcel which are attached hereto as Exhibit "D".

4. **CLOSING.** Buyer and Seller agree that the Buyer shall open an escrow once the Yavapai County Board of Supervisors, as Buyer, has approved this agreement. Buyer shall be responsible for all escrow fees, closing fees and title insurance. Buyer and Seller agree to close escrow as soon as possible. Seller represents that it has marketable title to the property identified in the attached Exhibits. Seller shall be responsible for clearing any discrepancies in title and shall cooperate in obtaining ratifications and/or partial releases from any/all lienholders, if required.

EXHIBIT

A PORTION OF SECTION 30

T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA



NORTH
1"=60'

102-09-008H

APN
102-09-008D

WILLIAMSON VALLEY ROAD

RIGHT-OF-WAY
DESCRIBED

P.O.B.

DAVA & ASSOCIATES, INC.

310 EAST UNION STREET
PRESCOTT, ARIZONA 86303

928-778-7587

555WVR2\DWG\COP\DESCRIPTIONS\WVR-154.DWG TMS 03/01/2010

SEE 555WVR2\WORD\DESCRIPTIONS\WVR-154.DSC.DOC

EXHIBIT "B"

DRAINAGE EASEMENT

KNOW ALL MEN BY THESE PRESENTS THAT _____ and _____, whose address is _____, hereinafter termed Grantor, for consideration ONE DOLLAR (\$1.00) and other valuable consideration, does hereby grant and convey to YAVAPAI COUNTY, a political subdivision of the State of Arizona, and its successors or assigns, hereinafter termed Grantee, a perpetual easement to construct and maintain a drainage facility for the safe conveyance of water, together with the right of ingress and egress, over that certain real property situated in Yavapai County, Arizona, described as follows:

SEE EXHIBIT "A"

EXEMPT from the Affidavit of Value Requirements by virtue of A.R.S. §11-1134A(2).

Grantee and its successors or assigns, will maintain the drainage facilities within said easement to such an extent as necessary for the proper function of the facilities and such that the facilities are not a health and safety hazard.

No trees, bushes, gardens, fences, buildings or other obstructions shall be installed in the easement by the Grantor, except with the express written permission of the Grantee. Any improvement installed by the Grantor in said easement may be subject to removal or damage by the Grantee as necessary for maintenance or reconstruction of the facilities and the Grantor will not be compensated for such removal or damage.

All grants, covenants and provisions herein shall be binding on and inure to the benefit of the heirs, successors, and assigns of the parties hereto. Construction plans approved by the Grantor are available for viewing at Yavapai County Public Works, 1100 Commerce Drive, Prescott, AZ 86305.

IN WITNESS WHEREOF, this instrument was duly signed and executed by the Grantor the day and year written.

DO NOT SIGN

EXHIBIT ONLY

Date: _____

Date: _____

STATE OF ARIZONA)
) ss.
County of Yavapai)

This instrument was duly acknowledged before me this _____ day of _____ 20____, by
_____.

Notary Public

My Commission Expires: _____

STATE OF ARIZONA)
) ss.
County of Yavapai)

This instrument was duly acknowledged before me this _____ day of _____ 20____, by
_____.

Notary Public

My Commission Expires: _____

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

310 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D DRAINAGE EASEMENT

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, North 53°41'45" East, 44.59 feet to the **POINT OF BEGINNING**.

Thence, departing the southeasterly boundary of said parcel, North 49°12'25" West, 23.47 feet;

thence, North 02°11'01" East, 28.03 feet;

thence, South 86°26'45" East, 43.30 feet;

thence, South 02°49'59" West, 22.01 feet to a point on the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office;

thence, along the southeasterly boundary of said parcel, South 53°41'45" West, 31.55 feet to the **POINT OF BEGINNING**.

This description yields 1,441 square feet.

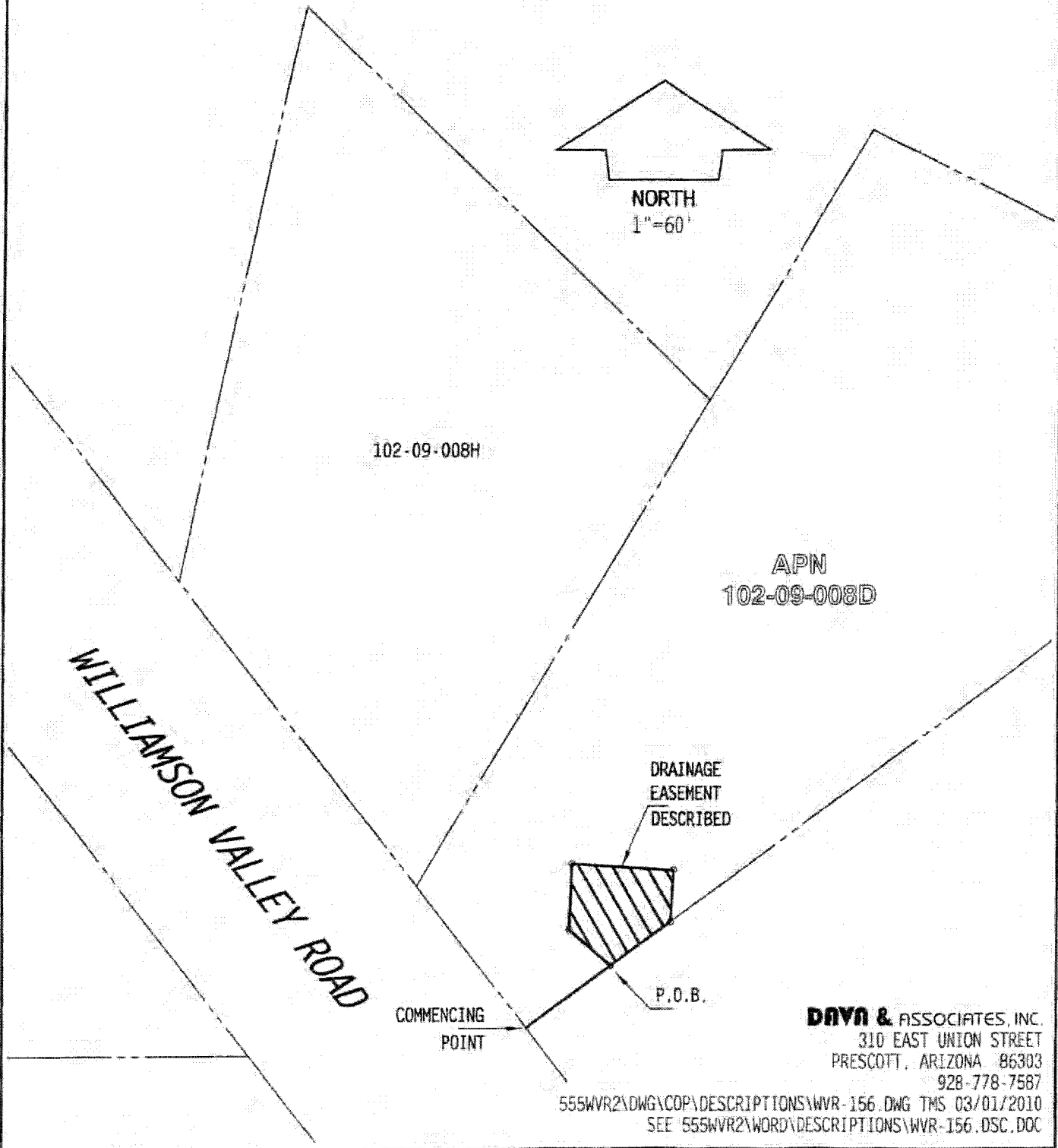
I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



EXPIRES 6/30/2011

EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA



DAY & ASSOCIATES, INC.
310 EAST UNION STREET
PRESCOTT, ARIZONA 86303
928-778-7587

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SEE 555WVR2\WORD\DESCRIPTIONS\WVR-156.DSC.DOC

EXHIBIT "C"

TEMPORARY RIGHT OF ENTRY

THIS TEMPORARY RIGHT OF ENTRY is given this ___ day of _____, 20___, by _____, whose address is _____, hereinafter designated the Grantor, to YAVAPAI COUNTY, a political subdivision of the State of Arizona, hereinafter designated as the Grantee.

RECITALS:

The Grantee requires a temporary right of entry to a parcel of land belonging to the Grantor, upon which the Grantee may do any or all of the following: a) remove a portion of the existing driveway access and replace it in like kind; b) reconstruct portions of road intersections in order to match new improvements on Williamson Valley Road; c) construct or modify drainage facilities. Upon completion of said work on the parcel of land belonging to the Grantor, this agreement shall become null and void.

The Grantor does hereby grant to the Grantee a right of entry for such purposes, subject however, to the reservations, provisions and conditions hereinafter contained, and said Grantor does hereby acknowledge said work; and does hereby release the said Grantee from, and waives all claims for damage or compensation for and on account of the survey and staking other than set forth herein.

CONSIDERATION:

In consideration of the premises, covenants, and conditions to be kept and performed by the Grantee, and other good and valuable consideration, the Grantor does hereby grant a right of entry to the Grantee upon that certain strip, tract, or parcel of land and real estate situated in Yavapai County, Arizona, known as Assessor's Parcel # _____ and more particularly described as:

SEE ATTACHED EXHIBIT "A"

UPON THE FOLLOWING CONDITIONS:

1. That said parcel of land shall be used for no other purposes than those herein set forth.
2. That the Grantee shall and will repair any improvements belonging to the Grantor that may be damaged during the course of said work.
3. That upon completion of said described work on Grantor's parcel of land, this Temporary Right of Entry shall become null and void.

THAT ALL GRANTS, COVENANTS AND PROVISIONS herein contained shall be binding on and inure to the benefit of the heirs, successors, and assigns of the parties hereto. Construction plans approved by the Grantor are available for viewing at Yavapai County Public Works, 1100 Commerce Drive, Prescott, AZ 86305.

IN WITNESS WHEREOF, this instrument has been duly signed and executed by the Grantor the day and year first above written.

DO NOT SIGN

EXHIBIT ONLY

STATE OF ARIZONA)
) ss.
COUNTY OF YAVAPAI)

This instrument was duly acknowledged before me this _____ day of _____ 20____,
by _____ for the purpose and consideration therein mentioned.

Notary Public

My Commission expires _____

STATE OF ARIZONA)
) ss.
COUNTY OF YAVAPAI)

This instrument was duly acknowledged before me this _____ day of _____ 20____,
by _____ for the purpose and consideration therein mentioned.

Notary Public

My Commission expires _____

EXHIBIT "A"

DAVA & ASSOCIATES, INC.

PLANNING • ENGINEERING • SURVEYING

310 E. Union Street, Prescott, AZ 86303

(928) 778-7587

102-09-008D TEMPORARY CONSTRUCTION EASEMENT

A portion of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, and located in Section 30, Township 15 North, Range 2 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

COMMENCING at the most southerly corner of that parcel described in Book 4019 of Official Records, Page 50, which is also a point on the northeast right-of-way of Williamson Valley Road, as shown in Book 18 of Maps and Plat, Page 20, in the Yavapai County Recorder's Office, and is identified by a 1/2" rebar with no cap or tag;

thence, along the southeasterly boundary of that parcel described in Book 4019 of Official Records, Page 50, in the Yavapai County Recorder's Office, North 53°41'45" East, 44.59 feet;

thence, departing the southeasterly boundary of said parcel, North 49°12'25" West, 52.17 feet to the **POINT OF BEGINNING**.

Thence, North 49°12'25" West, 37.68 feet; to a point on the northwesterly boundary of said parcel;

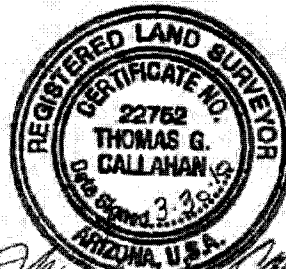
thence, along the northwesterly boundary of said parcel, North 30°55'41" East, 129.63 feet;

thence, departing the northwesterly boundary of said parcel, South 58°57'54" East, 23.65 feet;

thence, South 25°16'17" West, 136.71 feet to the **POINT OF BEGINNING**.

This description yields 4.014 square feet.

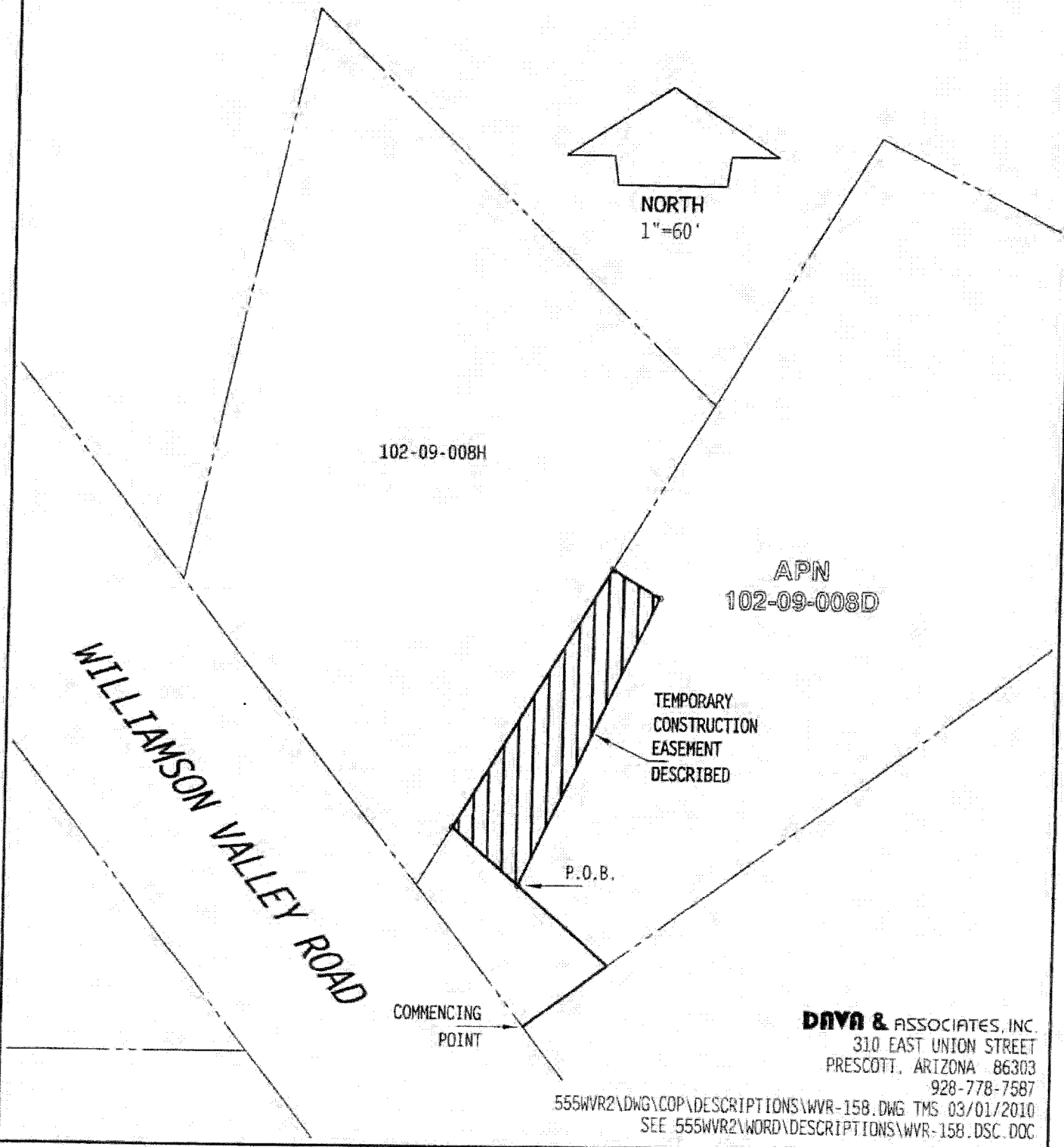
I certify that, I, Thomas G. Callahan, am a Registered Land Surveyor in the State of Arizona, that this description was prepared under my direction and contains adequate information to allow retracement thereof.



EXPIRES 6/30/2011

EXHIBIT

A PORTION OF SECTION 30
T. 15 N., R. 2 W., G. & S. R. M.,
YAVAPAI COUNTY, ARIZONA



DAVA & ASSOCIATES, INC.
310 EAST UNION STREET
PRESCOTT, ARIZONA 86303
928-778-7587

555WVR2\DWG\COP\DESCRIPTIONS\WVR-158.DWG TMS 03/01/2010
SEE 555WVR2\WORD\DESCRIPTIONS\WVR-158.DSC.DOC

EXHIBIT "D"
Construction Plans

BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER COMPANY,)
INC. FOR APPROVAL OF A RATE INCREASE)
_____)

DOCKET NO. W-02467A-14-0230

RESPONSIVE

TESTIMONY

OF

DOROTHY HAINS, P. E.

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 4, 2016



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| Schematic Drawing | 1 |
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EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY, INC.
DOCKET NO. W-02467A-14-0230

Dorothy Hains' testimony discusses Utilities Division Staff's ("Staff") review of Granite Mountain Water Company, Inc.'s ("Granite Mountain" or "Company") Post-test year Tank No. 3 installation project for the rate case filed with the Arizona Corporation Commission ("Commission"), and presents the results of Staff's analysis.

Based on its review of Granite Mountain's Tank No. 3 Project, Staff's conclusions are as follows:

1. The Tank is used and useful since December 2015.
2. Costs of \$102,222.68 for Tank construction were reasonable.

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix,
4 Arizona 85007.

5
6 **Q. Are you the same Dorothy Hains who has previously filed testimony in this Granite**
7 **Mountain Water Corporation, Inc. ("Granite Mountain" or "Company") rate**
8 **proceeding?**

9 A. Yes.

10

11 **II. TANK NO. 3**

12 **Q. What is the purpose of this Responsive Testimony?**

13 A. The purpose is to discuss the Company's post-test year construction project - Tank No. 3
14 ("Tank") installation, and present the results of this review along with Staff's conclusion.

15

16 **Q. Did Staff perform an analysis of the application that is the subject of this proceeding?**

17 A. Yes, Staff inspected the Tank on December 9, 2015 and determined that the Tank is in
18 service.

19

20 **Q. Has Arizona Department of Environmental Quality ("ADEQ") certified the Tank**
21 **installation?**

22 A. Yes, ADEQ issued an Approval of Construction ("AOC") for the Tank on December 3,
23 2015.

24

25 **Q. Did the Company file a copy of AOC for the Tank?**

26 A. Yes, the Company docketed a copy of AOC for the Tank on December 8, 2015.

1 Q. The Company proposes to include in rates post-test year plant improvements of
2 \$102,222.68 for the Tank. Does Staff agree with the Company that \$102,222.68 plant
3 improvement expenses should be included in rate base?

4 A. Yes. Staff has determined that the Company's cost of \$102,222.68, which include expenses
5 of Engineering & Permitting, Tank Construction and Materials & Misc., was reasonable.
6

7 Q. What is the Staff's conclusion regarding the Tank?

8 A. Staff concludes that the Tank is used and useful.
9

10 **III. CORRECTIONS**

11 Q. Do you have correction to the Engineering Report Docketed on July 15, 2015? Please
12 explain.

13 A. Yes. Staff wishes to make two corrections in the July 15, 2015 Engineering Report 3.
14

15 The first correction is to delete Recommendation No. 5 in the Executive Summary because
16 the Tank is in service and the Company had docketed the AOC.
17

18 The second correction is to replace the Schematic Drawing in the Engineering Report with
19 revised Schematic Drawing (attached).
20

21 **IV. CONCLUSIONS**

22 Q. Based upon your testimony, what are Staff's conclusions regarding the Tank project?

23 A. Staff's conclusions are as follows:
24

- 25 1. It is Staff's conclusion that the Tank is used and useful since December 2015.
- 26 2. Costs of \$102,222.68 for the Tank construction were reasonable.

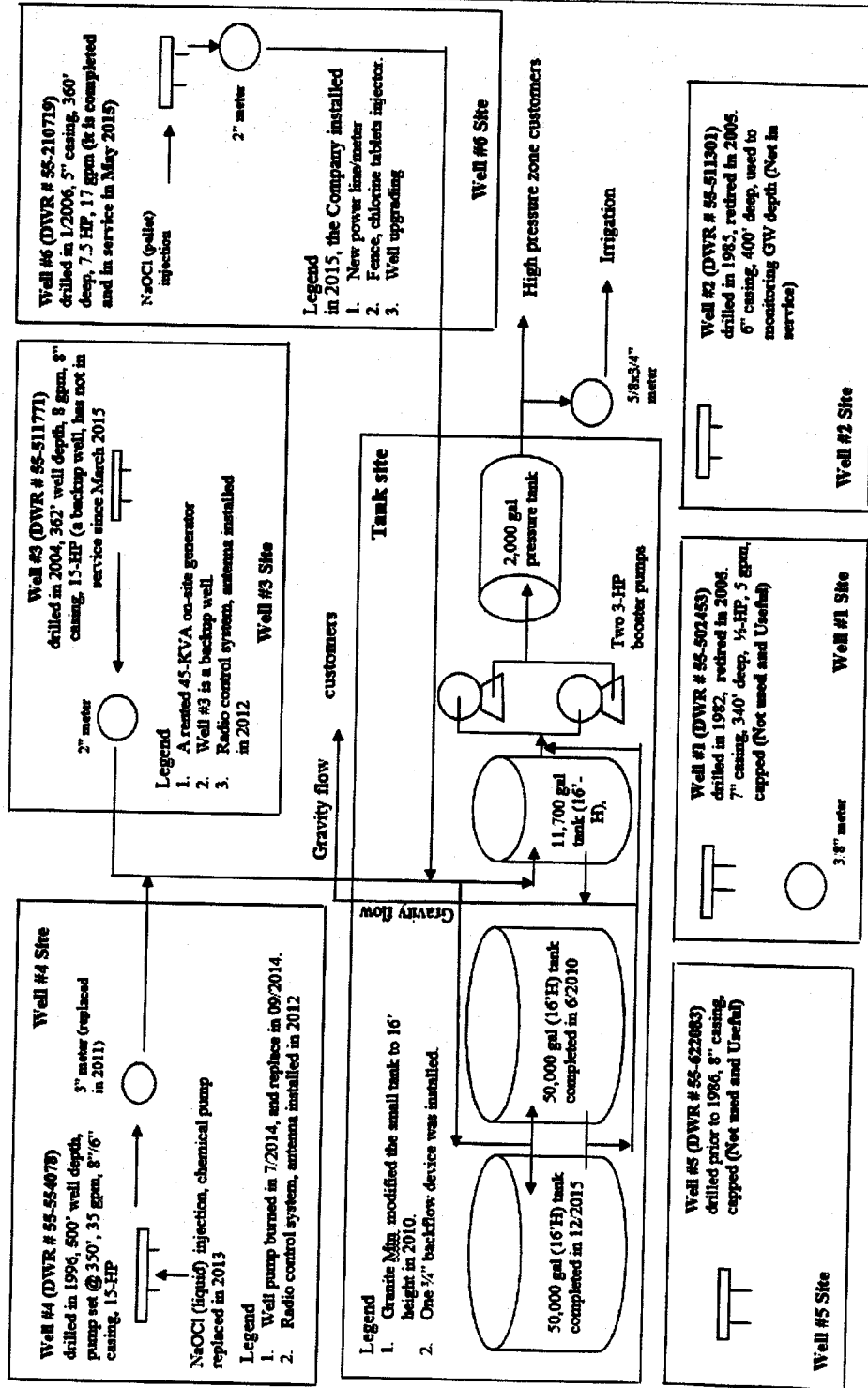
1 **Q. Does this conclude your Direct Testimony?**

2 **A. Yes, it does.**

Attachment 1

12-16-15

Granite Mountain Water Company (PWS #13-150 System)



BEFORE THE ARIZONA CORPORATION COMMISSION

DOUG LITTLE

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

TOM FORESE

Commissioner

ANDY TOBIN

Commissioner

IN THE MATTER OF THE APPLICATION OF)
GRANITE MOUNTAIN WATER CO. INC. FOR)
A RATE INCREASE.)
_____)

DOCKET NO W-02467A-14-0230

RESPONSIVE

TESTIMONY

OF

TERESA B. HUNSAKER

PUBLIC UTILITIES ANALYST

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 4, 2016

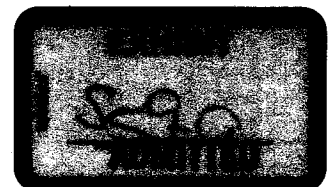


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**EXECUTIVE SUMMARY
GRANITE MOUNTAIN WATER COMPANY INC.
DOCKET NO. W-02467A-14-0230**

Staff's responsive testimony is being filed in accordance with the provisions of the Procedural Order dated December 18, 2015 for Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or "Company"), and addresses the following issues:

1. Issues raised regarding the following Late Filed Exhibits, docketed by Granite Mountain on November 30, 2015:
 - a. A-3 – Receivables from affiliates
 - i. Part 1 – Accounting Report for Affiliated Receivables from December 31, 2013 to November 13, 2015.
 - ii. Part 2 – Customer Billing System Report showing payment history on four accounts of Daniel (Danny) Levie for the period January 1, 2013 to November 25, 2015.
 - b. A-4 – Water Infrastructure Finance Authority of Arizona ("WIFA") Loan Bank Account
 - i. Accounting Report and supporting documentation showing deposits and transactions for the WIFA Loan Bank Account required by Decision No. 74384.
2. The Company's request for the recognition in rate base of the Post-Test Year Plant associated with Storage Tank No. 3.

In direct testimony, Staff recommended a revenue increase resulting in a total operating revenue of \$185,719, a \$68,399 (58.30 percent) increase, to provide a \$34,625 operating income and an 8.03 percent rate of return on Staff's adjusted original cost rate base ("OCRB") \$431,139. OCRB and fair value rate base ("FVRB") are deemed to be the same. In Staff's surrebuttal testimony, Staff recommended a revenue increase resulting in a total operating revenue of \$169,647, a \$52,327 (44.60 percent) increase, to provide a \$34,287 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$426,930.

In responsive testimony, Staff recommends a revenue increase resulting in a total operating revenue of \$179,504, a \$62,184 (53.00 percent) increase, to provide a \$51,340 operating income and an 8.03 percent rate of return on Staff's adjusted OCRB \$529,152 as shown on Final Schedule TBH GM-1. Again, OCRB and FVRB are deemed to be the same.

The Company and Staff's recommended revenue requirements and associated rate increase are summarized as follows:

| | <u>Revenue Requirement</u> | <u>Revenue Change</u> | <u>% Change</u> |
|----------------------|----------------------------|-----------------------|-----------------|
| Company Application | \$181,668 | \$64,221 | 55.48% |
| Staff Direct | \$185,719 | \$68,399 | 58.30% |
| Company Rebuttal | \$177,270 | \$59,950 | 51.10% |
| Staff Surrebuttal | \$169,647 | \$52,327 | 44.60% |
| Company Supplemental | \$177,563 | \$60,243 | 51.35% |
| Staff Responsive | \$179,504 | \$62,184 | 53.00% |

1 **I. INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Teresa B. Hunsaker. I am a Public Utilities Analyst III working for the Arizona
4 Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My
5 business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Teresa B. Hunsaker who filed direct and surrebuttal testimonies in**
8 **this case?**

9 A. Yes.

10
11 **II. PURPOSE OF RESPONSIVE TESTIMONY**

12 **Q. What is the purpose of your responsive testimony in this proceeding?**

13 A. The purpose of my responsive testimony in this proceeding is to testify on behalf of Staff
14 regarding the changes Staff made to its direct and surrebuttal positions as a result of its review
15 of the limited issues addressed in the supplemental direct testimony of Mr. Ray L. Jones,
16 witness for Granite Mountain Water Company Inc. ("Granite Mountain", "GM" or
17 "Company").

18
19 **Q. What issues will you address?**

20 A. I will address the issues listed below that are discussed in the supplemental direct testimony
21 of the Company's witness Mr. Ray L. Jones.

22
23 1. Issues raised regarding the following Late Filed Exhibits, docketed by Granite
24 Mountain on November 30, 2015:

25 a. A-3 – Receivables from affiliates
26

1 i. Part 1 – Accounting Report for Affiliated Receivables from December
2 31, 2013 to November 13, 2015.

3 ii. Part 2 – Customer Billing System reports showing payment history on
4 four accounts of Daniel (Danny) Levie for the period January 1, 2013
5 to November 25, 2015.

6
7 b. A-4 – Water Infrastructure Finance Authority of Arizona ("WIFA") Loan
8 Bank Account

9
10 i. Accounting Report and supporting documentation showing deposits
11 and transactions for the WIFA Loan Bank Account required by
12 Decision No. 74384.

13
14 2. The Company's request for the recognition in rate base of the Post-Test Year Plant
15 associated with Storage Tank No. 3.

16
17 **Q. Is Staff enclosing new schedules?**

18 A. Yes. Staff has made changes to responsive testimony schedules and has provided new final
19 schedules.

20
21 **Q. Did you attempt to address every issue raised by Granite Mountain in its
22 supplemental direct testimony?**

23 A. No. I limited my discussion to the specific issues as noted above. My silence on any
24 particular issue raised in the Company's supplemental direct testimony does not indicate that
25 I agree with the Company's stated supplemental direct position on the issue. Rather, where I
26 do not respond, I rely on my direct and surrebuttal testimonies.

1 **III. SUMMARY OF PROPOSED REVENUES**

2 **Q. Please summarize Staff's recommended revenue.**

3 A. Staff's recommended rates would produce total operating revenue of \$179,504, a \$62,184
4 (53.00 percent) increase, from Staff's adjusted test year revenue of \$117,320, to provide a
5 \$42,496 operating income and an 8.03 percent rate of return on Staff's adjusted original cost
6 rate base ("OCRB") of \$529,152 as shown on Final Schedule TBH GM-1. Staff's
7 recommended rates would increase the typical residential 5/8 x 3/4-inch meter bill with a
8 median usage of 3,684 gallons from \$41.21 to \$64.76, for an increase of \$23.55 or 57.15
9 percent as shown on Final Schedule TBH GM-27. OCRB and fair value rate base ("FVRB")
10 are deemed to be the same in Staff's Schedules.

11
12 **IV. LATE FILED EXHIBIT A-3 – RECEIVABLES FROM AFFILIATES**

13 **Q. Did Staff review the Company's Exhibit A-3 in the Company's filing of Late Filed**
14 **Exhibits docketed on November 30, 2015?**

15 A. Yes.

16
17 **Q. What was provided in the Company's Exhibit A-3?**

18 A. On November 30, 2015, Granite Mountain provided the following:

19
20 Part 1 – Accounting Report for Affiliated Receivables from December 31, 2013 to November
21 13, 2015 (current). All non-water company receivables are paid in full. The remaining
22 Receivable Balance of \$18,022.14 consists of \$9,239.68 for Chino Meadows II Water and
23 \$8,782.46 for Antelope Lakes Water Company.
24

1 Part 2 – Customer Billing System reports showing payment history on four accounts of
2 Daniel (Danny) Levie for the period January 1, 2013 to November 25, 2015 (current). All
3 four accounts are current and have a history of regular payments.
4

5 **Q. Does Exhibit A-3 Part 1, address Staff's concerns about the Company's notes and**
6 **account receivables from non-water associated/affiliated companies?**

7 **A.** Yes. The Company provided Exhibit A-3 Part 1, indicating the amounts due as of November
8 13, 2015. The remaining balances of the amounts due are: Chino Meadows – Other \$9,240,
9 Antelope Lakes \$8,782, GFL CMI Tract B Water Line \$0, PDL Trust \$0 and PDL Zooki on
10 behalf of Mr. Paul Levie's son, Mr. Daniel Levie \$0. The total remaining balance due from
11 affiliated water companies is \$18,022 as shown on Exhibit A-3 Part 1.
12

13 **Q. Does Exhibit A-3 Part 2, provides information as to the current status of the accounts**
14 **for individuals related to the owners of the Company?**

15 **A.** Yes. The Company-provided Exhibit A-3 Part 2, provides the billing and payment history for
16 four customer accounts held by Mr. Daniel (Danny) Levie as of November 25, 2015. The
17 accounts are: 80.001.02 – Granite Mountain Stables, 81.002.01 – Daniel P. Levie (2400 Shane
18 Drive), 80.012.00 – Daniel P. Levie (7280 N. Stable Lane) and 80.002.01 – Daniel P. Levie
19 (2480 Shane Drive). The report indicates that all four accounts are current and that the
20 accounts have a current history of regular payments made in accordance with the Company's
21 tariff requirements.
22

23 **V. LATE FILED EXHIBIT A-4 – WIFA LOAN BANK ACCOUNT**

24 **Q. Did Staff review the Company's Exhibit A-4 in the Company's filing of Exhibit A-4?**

25 **A.** Yes.
26

1 **Q. What was provided in the Company's Exhibit A-4?**

2 **A. On November 30, 2015, Granite Mountain provided:**

3
4 Accounting Report and supporting documentation showing deposits and transactions for the
5 WIFA Loan Bank Account required by Decision No. 74384.

6
7 **Q. Does Exhibit A-4 provide information as to the requirements of Decision No. 74384**
8 **for a separate bank account for the WIFA Loan payments?**

9 **A. Yes. The Company-provided Exhibit A-4 provided the accounting records for the WIFA**
10 **Loan Account, payment history, and deposits to WIFA Loan Bank Account as required by**
11 **Decision No. 74384. The report indicates that the Company began making regular deposits**
12 **into the separate bank account on September 25, 2015, in accordance with Decision No.**
13 **74384.**

14
15 **VI. RATE BASE**

16 **Q. What changes does Staff make to Rate Base in its responsive testimony?**

17 **A. Staff made changes to the following adjustments:**

- 18
19 1. Rate Base Adjustment No. 1 – Post-Test Year Plant
20 2. Rate Base Adjustment No. 8 – Cash Working Capital Allowance

21
22 *Rate Base Adjustment No. 1 – Post-Test Year Plant in Service*

23 **Q. Did Staff review Granite Mountain's supplemental direct testimony concerning post-**
24 **test year plant?**

25 **A. Yes.**
26

1 Q. Did Staff review the additional documentation and support for the completed
2 construction of storage tank No. 3 and make changes to Rate Base Adjustment No. 1
3 – Post-Test Year Plant?

4 A. Yes.

6 Q. Please explain Staff's changes to Rate Base Adjustment No. 1 – Post-Test Year Plant
7 for the cost of the storage tank No. 3?

8 A. Staff reviewed the additional documentation and support for the completed construction of
9 storage tank No. 3 in the amount of \$106,043. Staff reviewed the Company's proposed
10 adjustment for possible duplicate costs, which identified \$3,820 as duplicative. Staff adjusted
11 the amount of post-test year plant costs requested by the Company by \$3,820, resulting in a
12 total cost of \$102,223. Staff's Engineer considers storage tank No. 3 as used and useful
13 therefore any costs have been included in plant in service.

14
15 *Rate Base Adjustment No. 6 – Cash Working Capital Allowance*

16 Q. Does Staff make any adjustments to its Cash Working Capital Allowance
17 recommendation?

18 A. Yes. Staff's adjustment reflects Staff's calculation of the cash working capital based upon
19 Staff's adjusted test year operating expenses and recommendations.

20
21 *Summary of Rate Base Adjustments*

22 Q. What is Staff's current rate base recommendation?

23 A. Staff's direct testimony recommended a rate base of \$431,139, Staff's surrebuttal testimony
24 recommended a rate base of \$426,930, and Staff's responsive testimony recommends ^{an} ~~a rate~~
25 ^{adjusted rate} base adjustment of \$529,152, an increase of \$102,222 for the post-test year plant.

1 **VII. OPERATING INCOME**

2 **Q. What changes does Staff make to Operating Income in its r testimony?**

3 **A.** Staff made changes to the following adjustments:

- 4
- 5 1. Operating Income Adjustment No. 9 – Depreciation Expense
 - 6 2. Operating Income Adjustment No. 10 – Property Tax Expense
 - 7 3. Operating Income Adjustment No. 11 – Income Tax Expense
- 8

9 Effectively all three are fallout adjustments required as a result of the other adjustments Staff
10 has already discussed.

11

12 *Operating Income Adjustment No. 9 – Depreciation Expense*

13 **Q. Does Staff make an adjustment to Depreciation Expense due to the inclusion of the**
14 **post-test year plant for storage tank No. 3?**

15 **A.** Yes. Staff increased the plant in service for storage tanks by \$102,223. Staff has adjusted the
16 depreciation expense from \$30,165 to \$32,434, an increase of \$2,269 as shown on Final
17 Schedule TBH GM-21.

18

19 *Operating Income Adjustment No. 10 – Property Tax Expense*

20 **Q. Does Staff make any adjustments to Property Tax Expense?**

21 **A.** Yes. Staff recommends \$4,410 for test year property tax expense, a \$642 decrease to the
22 Company's proposed amount, as shown on Final Schedule TBH GM-22. Staff further
23 recommends adoption of its Gross Revenue Conversion Factor ("GRCF") that includes a
24 factor for Property Tax Expense, as shown on Final Schedule TBH GM-2.

25

Operating Income Adjustment No. 11 – Income Tax Expense

Q. Does Staff make any adjustments to Income Tax Expense?

A. Yes. Staff applied the statutory state and federal income tax rates to Staff's revised test year taxable income. Income tax expenses for the test year and recommended revenues are shown on Final Schedule TBM GM-11.

VIII. STAFF'S RECOMMENDED WATER RATE DESIGN

Q. Please provide a description of Staff's recommended rate design.

A. Staff recommends increases in the minimum monthly charge for all meter sizes. Staff recommends that the monthly minimum for the 5/8 x 3/4-inch meter be \$37.50. Staff recommends break-over points at 3,000 and 8,000 gallons for the 5/8 x 3/4-inch meter. Staff recommends an increase to commodity rates in all three tiers. First commodity tier rate would increase by \$2.35 from \$4.40 per 1,000 gallons to \$6.75 per 1,000 gallons. Second commodity tier rate would increase by \$3.65 from \$6.60 per 1,000 gallons to \$10.25 per 1,000 gallons. Third commodity tier rate would increase by \$4.10 from \$7.90 per 1,000 gallons to \$12.00 per 1,000 gallons. The typical 5/8 x 3/4-inch meter bill with a median usage of 3,684 gallons would increase by \$23.55 from \$41.21 to \$64.76. Staff's recommended rates are shown on Final Schedule TBH GM-26 and the typical bill analysis for 5/8 x 3/4-inch meter customers is shown on Final Schedule TBH GM-27.

Q. Does this conclude your responsive testimony?

A. Yes, it does.

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-1

REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | | [A] | [B] |
|-------------|---|--|-----------------------------|------------------------|
| | | | COMPANY ORIGINAL COST | STAFF FINAL COST |
| 1 | Adjusted Rate Base - OCRB and FVRB | | \$564,606 | \$529,152 |
| 2 | Adjusted Operating Income (Loss) | | (\$8,153) | (\$8,844) |
| 3 | Current Rate of Return (L2 / L1) | | -1.44% | -1.67% |
| 4 | Required Rate of Return | | 8.031% | 8.031% |
| 5 | Required Operating Income (L4 * L1) | | \$45,346 | \$42,496 |
| 6 | Operating Income Deficiency (L5 - L2) | | \$53,499 | \$51,340 |
| 7 | Gross Revenue Conversion Factor | | 1.200411 | 1.211224 |
| 8 | Increase (Decrease) In Gross Revenue (L7 * L6) | | \$64,221 | \$62,184 |
| 9 | Adjusted Test Year Revenue | | \$117,447 | \$117,320 |
| 10 | Proposed Annual Revenue (L8 + L9) | | \$181,668 | \$179,504 |
| 11 | Required Increase/(Decrease in Revenue) (%) (L8/L9) | | 54.68% | 53.00% |

References:

Column [A]: Company Schedules A-1 Supplemental Page 1, Company's Schedule Supplemental Attachment No. 2 Page 2
Column [B]: Staff Schedules TBH GM-2, TBH GM-3, & TBH GM-15

GROSS REVENUE CONVERSION FACTOR

| | (A) | (B) | (C) | (D) | (E) | (F) |
|---|-----|-----------|---------|-----|-----|-----|
| Calculation of Gross Revenue Conversion Factor: | | | | | | |
| 1 Revenue | | 100.0000% | | | | |
| 2 Uncollectible Factor (Line 11) | | 0.0000% | | | | |
| 3 Revenues (L1 - L2) | | 100.0000% | | | | |
| 4 Combined Federal and State Income Tax and Property Tax Rate (Line 23) | | 17.4389% | | | | |
| 5 Subtotal (L3 - L4) | | 82.5611% | | | | |
| 6 Revenue Conversion Factor (L1 / L5) | | 1.211224 | | | | |
| Calculation of Uncollectible Factor: | | | | | | |
| 7 Unity | | 100.0000% | | | | |
| 8 Combined Federal and State Tax Rate (L17) | | 16.2860% | | | | |
| 9 One Minus Combined Income Tax Rate (L7 - L8) | | 83.7140% | | | | |
| 10 Uncollectible Rate | | 0.6573% | | | | |
| 11 Uncollectible Factor (L9 * L10) | | | 0.5503% | | | |

| | | | | | | |
|--|--|-----------|----------|----------|--|--|
| Calculation of Effective Tax Rate: | | | | | | |
| 12 Operating Income Before Taxes (Arizona Taxable Income) | | 100.0000% | | | | |
| 13 Arizona State Income Tax Rate | | 4.1282% | | | | |
| 14 Federal Taxable Income (L12 - L13) | | 95.8718% | | | | |
| 15 Applicable Federal Income Tax Rate (L55 Col F) | | 12.6813% | | | | |
| 16 Effective Federal Income Tax Rate (L14 x L15) | | 12.1578% | | | | |
| 17 Combined Federal and State Income Tax Rate (L13 + L16) | | | 16.2860% | | | |
| Calculation of Effective Property Tax Factor | | | | | | |
| 18 Unity | | 100.0000% | | | | |
| 19 Combined Federal and State Income Tax Rate (L17) | | 16.2860% | | | | |
| 20 One Minus Combined Income Tax Rate (L19-L18) | | 83.7140% | | | | |
| 21 Property Tax Factor | | 1.3772% | | | | |
| 22 Effective Property Tax Factor (L20*L21) | | | 1.1529% | | | |
| 23 Combined Federal and State Income Tax and Property Tax Rate (L17+L22) | | | | 17.4389% | | |

| | | | | | | |
|---|----|---------|----|--------|--|--|
| 24 Required Operating Income | \$ | 42,496 | | | | |
| 25 Adjusted Test Year Operating Income (Loss) | \$ | (8,844) | | | | |
| 26 Required Increase in Operating Income (L24 - L25) | | | \$ | 51,340 | | |
| 27 Income Taxes on Recommended Revenue (Col. (F), L52) | \$ | 6,759 | | | | |
| 28 Income Taxes on Test Year Revenue (Col. (C), L52) | \$ | (3,037) | | | | |
| 29 Required Increase in Revenue to Provide for Income Taxes (L27 - L28) | | | \$ | 9,796 | | |
| 30 Recommended Revenue Requirement | \$ | 179,504 | | | | |
| 31 Uncollectible Rate (Line 10) | | 0.6573% | | | | |
| 32 Uncollectible Expense on Recommended Revenue (L24 * L25) | \$ | 1,180 | | | | |
| 33 Adjusted Test Year Uncollectible Expense | \$ | - | | | | |
| 34 Required Increase in Revenue to Provide for Uncollectible Exp. | | | \$ | 1,180 | | |

| | | | | | | |
|--|----|-------|----|-------------|----|-----------|
| 35 Property Tax with Recommended Revenue | \$ | 5,266 | \$ | (47,103.15) | | |
| 36 Property Tax on Test Year Revenue | \$ | 4,410 | | | | |
| 37 Increase in Property Tax Due to Increase in Revenue (L35-L36) | | | \$ | 856 | \$ | 68,776.00 |
| 38 Total Required Increase in Revenue (L26 + L29 + L37) | | | \$ | 63,172 | \$ | 21,672.85 |
| | | | | | \$ | 41,499 |

| | (A) | (B) | (C) | (D) | (E) | (F) |
|--|-------|----------|-------|----------|-----|----------|
| Calculation of Income Tax: | | | | | | |
| 39 Revenue | Total | | Water | Total | | Water |
| 40 Operating Expenses Excluding Income Taxes | \$ | 117,320 | \$ | 117,320 | \$ | 179,504 |
| 41 Synchronized Interest (L47) | | 129,201 | | 129,201 | | 131,237 |
| 42 Arizona Taxable Income (L39 - L40 - L41) | | 6,768 | | 6,768 | | 6,768 |
| 43 Arizona State Effective Income Tax Rate (see work papers) | \$ | (18,649) | \$ | (18,649) | \$ | 41,499 |
| 44 Arizona State Income Tax (L42 x L43) | | 4.1282% | | 4.1282% | | 4.1282% |
| 45 Federal Taxable Income (L42 - L44) | \$ | (770) | \$ | (770) | \$ | 1,713 |
| 46 Federal Tax Rate (see work papers) | \$ | (17,879) | \$ | (17,879) | \$ | 39,786 |
| 47 Federal Tax | \$ | 12.6813% | \$ | 12.6813% | \$ | 12.6813% |
| 48 | | (2,267) | | (2,267) | | 5,045 |
| 49 | | | | | | |
| 50 | | | | | | |
| 51 | | | | | | |
| 52 | | | | | | |
| 53 Total Federal Income Tax | \$ | (2,267) | \$ | (2,267) | \$ | 5,045 |
| 54 Combined Federal and State Income Tax (L35 + L42) | \$ | (3,037) | \$ | (3,037) | \$ | 6,759 |

| | |
|--|----------|
| 55 COMBINED Applicable Federal Income Tax Rate [Col. (D), L53 - Col. (A), L53] / [Col. (D), L45 - Col. (A), L45] | 12.6813% |
| 56 | |
| 57 WATER Applicable Federal Income Tax Rate [Col. (F), L53 - Col. (C), L53] / [Col. (F), L45 - Col. (C), L45] | 12.6813% |

Calculation of Interest Synchronization:

| | | |
|--------------------------------------|------------|------------|
| 58 Rate Base | Wastewater | Water |
| 59 Weighted Average Cost of Debt | \$ - | \$ 529,152 |
| 60 Synchronized Interest (L59 X L60) | 0.0000% | 1.2790% |
| | \$ - | \$ 6,768 |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-3

RATE BASE - ORIGINAL COST

| LINE NO. | DESCRIPTION | [A] | [B] | ADJ NO. | [C] |
|----------|---|------------------|-------------------|---------|-------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | | STAFF AS ADJUSTED |
| 1 | Plant in Service | \$1,095,441 | (\$22,490) | 1, 2 | \$1,072,951 |
| 2 | Less: Accumulated Depreciation | 532,491 | 5,552 | 5 | 538,043 |
| 3 | Net Plant in Service | \$562,950 | (\$28,041) | | \$534,908 |
| | <u>LESS:</u> | | | | |
| 4 | Advances in Aid of Construction (ALAC) | \$8,256 | (\$2,235) | 4 | \$6,022 |
| 5 | Service Line and Meter Advances | \$0 | \$0 | | \$0 |
| 6 | Contributions in Aid of Construction (CIAC) | \$0 | \$9,643 | 3 | \$9,643 |
| 7 | Less: Accumulated Amortization | 0 | 309 | 3 | 309 |
| 8 | Net CIAC | \$0 | \$9,334 | | \$9,334 |
| 9 | Total Advances and Contributions | \$8,256 | \$7,099 | | \$15,355 |
| 10 | Customer Deposits | \$750 | \$0 | | \$750 |
| 11 | Accumulated Deferred Income Taxes | \$0 | \$0 | | \$0 |
| | <u>ADD: Working Capital</u> | | | | |
| 12 | Cash Working Capital Allowance | 10,662 | (313) | 6 | 10,349 |
| 13 | Total Rate Base | \$564,606 | (\$35,453) | | \$529,152 |

References:

Column [A], Company Schedule Attachment No. 1 Supplemental, Page 1
Column [B]: Schedule TBH GM-4
Column [C]: Column [A] + Column [B]

SUMMARY OF RATE BASE ADJUSTMENTS

| LINE NO. | ACCT NO. | PLANT IN SERVICE | (A) Company as Adjusted with Post-Test Plant | (B) Adj No. 1 Post-Test Year Plant Ref: Sch TBH GM-5 | (C) ADI No. 2 Reclass Plant to Appropriate Classifications Ref: Sch TBH GM-6 | (D) ADI No. 3 Unsupported Plant Treated as CIAC Ref: Sch TBH GM-7 | (E) ADI No. 4 AIAC not paid during Test Year Ref: Sch TBH GM-8 | (F) ADI No. 5 Accumulated Depreciation Ref: Sch TBH GM-9 | (G) ADI No. 6 Working Capital Allowance Ref: Sch TBH GM-10 | (H) STAFF AS ADJUSTED |
|----------|----------|--|---|---|---|--|---|---|---|--------------------------|
| 1 | 301 | Organization Cost | \$110 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$110 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | 303 | Land and Land Rights | 0 | 14,700 | 0 | 0 | 0 | 0 | 0 | 14,700 |
| 4 | 304 | Structures and Improvements | 21,608 | 9,605 | 36,913 | 0 | 0 | 0 | 0 | 68,126 |
| 5 | 307 | Wells and Springs ¹ | 113,472 | (53,065) | 539 | 0 | 0 | 0 | 0 | 60,946 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | 310 | Power Generation Equipment | 0 | 0 | 912 | 0 | 0 | 0 | 0 | 912 |
| 8 | 311 | Pumping Equipment | 105,182 | 17,637 | (912) | 0 | 0 | 0 | 0 | 121,906 |
| 9 | 320 | Water Treatment Equipment | 1,661 | 0 | (1,661) | 0 | 0 | 0 | 0 | 0 |
| 10 | 320.1 | Water Treatment Plants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 416 | 5,669 | 1,661 | 0 | 0 | 0 | 0 | 7,745 |
| 12 | 330 | Distribution Reservoirs and Standpipes | 7,775 | 0 | (7,775) | 0 | 0 | 0 | 0 | 0 |
| 13 | 330.1 | Storage Tanks ² | 250,705 | (41,777) | (36,288) | 0 | 0 | 0 | 0 | 172,640 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 0 | 0 | 0 | 0 | 0 | 55,213 |
| 15 | 331 | Transmission and Distribution Mains ³ | 445,165 | 4,869 | 0 | 0 | 0 | 0 | 0 | 450,034 |
| 16 | 333 | Services | 55,853 | 81 | 0 | 0 | 0 | 0 | 0 | 55,934 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 0 | 0 | 0 | 0 | 0 | 6,652 |
| 18 | 335 | Hydrants | 8,774 | 0 | 0 | 0 | 0 | 0 | 0 | 8,774 |
| 19 | 336 | Backflow Prevention Devices | 1,027 | 402 | 0 | 0 | 0 | 0 | 0 | 1,428 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 0 | 0 | 0 | 0 | 0 | 4,850 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 0 | 0 | 0 | 0 | 0 | 3,500 |
| 23 | 341 | Transportation Equipment | 7,456 | 0 | 19,000 | 0 | 0 | 0 | 0 | 26,456 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 149 | 0 | (149) | 0 | 0 | 0 | 0 | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 0 | 0 | 0 | 0 | 0 | 5,000 |
| 27 | 346 | Communication Equipment | 853 | 0 | 7,150 | 0 | 0 | 0 | 0 | 8,003 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 0 | 0 | 0 | 0 | 0 | 0 | 20 |
| 30 | | Rounding | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 |
| 31 | | Total Plant in Service | \$1,095,441 | (\$41,880) | \$19,391 | \$0 | \$0 | \$0 | \$0 | \$1,072,951 |
| 32 | | Less: Accumulated Depreciation | 532,491 | 0 | 0 | 0 | 0 | 5,552 | 0 | 538,043 |
| 33 | | Net Plant in Service | \$562,950 | (\$41,880) | \$19,391 | \$0 | \$0 | (\$5,552) | \$0 | \$534,908 |
| 34 | | LESS: | | | | | | | | |
| 36 | | Advances in Aid of Construction (AIAC) | \$8,256 | \$0 | \$0 | \$0 | (\$2,235) | \$0 | \$0 | \$6,022 |
| 37 | | Meter Deposits - Service Line & Meter Advances | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 38 | | Contributions in Aid of Construction (CIAC) | \$0 | \$0 | \$0 | \$9,643 | 0 | 0 | 0 | \$9,643 |
| 39 | | Less: Accumulated Amortization of CIAC | 0 | 0 | 0 | 309 | 0 | 0 | 0 | 309 |
| 40 | | Net CIAC | \$0 | \$0 | \$0 | \$9,334 | \$0 | \$0 | \$0 | \$9,334 |
| 41 | | | | | | | | | | |
| 42 | | Total Advances and Net Contributions | \$8,256 | \$0 | \$0 | \$9,334 | (\$2,235) | \$0 | \$0 | \$15,355 |
| 43 | | | | | | | | | | |
| 45 | | Customer Deposits | \$750 | \$0 | \$0 | \$0 | 0 | 0 | 0 | \$750 |
| 46 | | Accumulated Deferred Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 47 | | | | | | | | | | |
| 48 | | ADD: Working Capital | | | | | | | | |
| 49 | | Prepayments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 50 | | Cash Working Capital Allowance | 10,662 | 0 | 0 | 0 | 0 | 0 | (313) | 10,349 |
| 51 | | Total Rate Base | \$564,606 | (\$41,880) | \$19,391 | (\$9,334) | \$2,235 | (\$5,552) | (\$313) | \$529,152 |

¹ Company included \$75,000 for PTY Plant for Wells & Springs. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for W.

² Company included \$144,000 for PTY Plant for the Storage Tank. Storage Tank AOC provided in December 2015 - Plant Used and Useful at \$102,223.

³ Company included \$30,000 for PTY Plant for Transmission & Distribution Mains. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50 estimated at \$34,869.

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR ("PTY") PLANT

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED WITH PTY PLANT | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|--|------------------------------|------------------------------|
| | | | | |
| 1 | Acct No. 303 - Land and Land Rights | \$0 | \$14,700 | \$14,700 |
| 2 | Acct No. 304 - Structures & Improvements | 21,608 | 9,605 | 31,213 |
| 3 | Acct No. 307 - Wells and Springs ¹ | 113,472 | (53,065) | 60,407 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | 17,637 | 122,819 |
| 5 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 5,669 | 6,085 |
| 6 | Acct No. 330.1 - Storage Tanks ² | 250,705 | (41,777) | 208,928 |
| 7 | Acct No. 331 - Transmission and Distribution Mains ³ | 445,165 | 4,869 | 450,034 |
| 8 | Acct No. 333 - Services | 55,853 | 81 | 55,934 |
| 9 | Acct No. 334 - Meters and Meter Installations | 6,652 | 0 | 6,652 |
| 10 | Acct No. 336 - Backflow Prevention Devices | 1,027 | 402 | 1,428 |
| 11 | TOTAL PLANT RECLASSIFICATIONS | \$1,000,079 | (\$41,880) | \$958,199 |
| 12 | | | | |
| 13 | | | | |
| 14 | PLANT RECLASSIFICATIONS AND DISALLOWANCES | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | DESCRIPTION | COMPANY AS FILED PTY PLANT | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 18 | 2013 Plant Addition, Acct No. 303 - Land Survey | \$0 | \$500 | \$500 |
| 19 | 2015 Plant Addition, Acct No. 303 - Land and Land Rights for Easements/Water Rights | 0 | 14,200 | 14,200 |
| 20 | Acct No. 303 - Land and Land Rights | 0 | 14,700 | 14,700 |
| 21 | | | | |
| 22 | 2013 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 5,292 | 5,292 |
| 23 | 2013 Plant Removal (Disallowed), Acct No. 304 - Structures & Improvements | 0 | (3,500) | (3,500) |
| 24 | 2014 Plant Addition, Acct No. 304 - Structures & Improvements | 0 | 4,286 | 4,286 |
| 25 | 2015 Plant Addition, Acct No. 304 - Structures & Improvements ⁵ | 0 | 3,528 | 3,528 |
| 26 | Acct No. 304 - Structures & Improvements | 0 | 9,605 | 9,605 |
| 27 | | | | |
| 28 | 2013 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 5,634 | 5,634 |
| 29 | 2014 Plant Addition, Acct No. 307 - Wells and Springs | 0 | 126 | 126 |
| 30 | 2015 Plant Addition, Acct No. 307 - Wells and Springs - Reclassified and Adjusted Land ^{1,5} | 75,000 | (58,825) | 16,175 |
| 31 | Acct No. 307 - Wells and Springs | 75,000 | (53,065) | 21,935 |
| 32 | | | | |
| 33 | 2014 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 17,234 | 17,234 |
| 34 | 2015 Plant Addition, Acct No. 311 - Pumping Equipment | 0 | 403 | 403 |
| 35 | Acct No. 311 - Pumping Equipment | 0 | 17,637 | 17,637 |
| 36 | | | | |
| 37 | 2014 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders ⁴ | 0 | 4,574 | 4,574 |
| 38 | 2015 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,095 | 1,095 |
| 39 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 5,669 | 5,669 |
| 40 | | | | |
| 41 | 2015 Plant Additions, Acct. 330.1 Storage Tank ² | 144,000 | (41,777) | 102,223 |
| 42 | Acct No. 330.1 - Storage Tanks | 144,000 | (41,777) | 102,223 |
| 43 | | | | |
| 44 | 2013 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 30,000 | (24,700) | 5,300 |
| 45 | 2014 Plant Addition, Acct No. 331 - Transmission and Distribution Mains | 0 | 29,569 | 29,569 |
| 46 | Acct No. 331 - Transmission and Distribution Mains | 30,000 | 4,869 | 34,869 |
| 47 | | | | |
| 48 | 2014 Plant Addition, Acct No. 333 - Services | 0 | 81 | 81 |
| 49 | Acct No. 333 - Services | 0 | 81 | 81 |
| 50 | | | | |
| 51 | 2014 Plant Additions, Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 52 | Acct No. 334 - Meters and Meter Installations | 0 | 0 | 0 |
| 53 | | | | |
| 54 | 2014 Plant Addition, Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 55 | Acct No. 336 - Backflow Prevention Devices | 0 | 402 | 402 |
| 56 | | | | |
| 57 | Total | \$249,000 | (\$41,880) | \$207,120 |

¹ Company included \$75,000 for PTY Plant. Company provided an estimate in response to Data Request ("DR") GM TBH 1.50. \$50,000 for Easements and Water Rights (Land) and \$25,000 for Well.

² Company proposed PTY Plant for Acct. No. 330.1 - Storage Tanks \$144,000 For Storage Tank 3. Company provided invoices totaling \$106,043 and an adjustment for costs duplication (3,820) for a total of \$102,223. Company provided to the docket on 12/8/2015.

³ Company proposed PTY Plant for Acct. No. 331 - Transmission & Distribution Mains \$30,000 from Well No. 6 to Transmission Lines.

⁴ Vendor provided Staff an Invoice (RW Turner Sons Invoice 13535) totaling \$10,085.76 yet billed the Company \$9,567.62 due to a Change Order for the Pellet Coordinator (Credit of \$518.14).

⁵ Surrebuttal Staff Adjustment to PTY Plant - Staff's Engineer has reviewed the appraisal provided by the Company and the Company's rebuttal adjustments. Staff's Engineer has determined that the costs are reasonable for Well No. 6 at \$16,000 and \$1,232 for Well House (Building 5). Staff has adjusted in 2015 the cost estimates for the Well No. 6 (Acct. 307) from \$25,000 to \$16,000 and the Well House (Acct. 304) for Well No. 6 from \$0 to \$1,232. These adjustments result in reduction of \$7,768 in the estimated costs for Well No. 6 and Well House for Well No. 6 from \$25,000 to \$17,232.

References:

Column [A]: Company Schedules B-2 and Attachment No. 1, Supplemental Page 2.

Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.50 and Company's filings to the docket for Storage Tank Construction Costs on 12/8/2015.

Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - RECLASSIFY PLANT TO APPROPRIATE CLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|----------|--|------------------------|----------------------|--------------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Acct No. 304 - Structures & Improvements | \$21,608 | \$36,913 | \$58,520 |
| 2 | Acct No. 307 - Wells & Springs | 113,472 | 539 | 114,011 |
| 3 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 4 | Acct No. 311 - Pumping Equipment | 105,182 | (912) | 104,270 |
| 5 | Acct No. 320 - Water Treatment Equipment | 1,661 | (1,661) | 0 |
| 6 | Acct No. 320.2 - Solution Chemical Feeders | 416 | 1,661 | 2,077 |
| 7 | Acct No. 330 - Distr Reserv & Standpipes | 7,775 | (7,775) | 0 |
| 8 | Acct No. 330.1 - Storage Tanks | 250,705 | (36,288) | 214,417 |
| 9 | Acct No. 341 - Transportation Equipment | 7,456 | 19,000 | 26,456 |
| 10 | Acct No. 343 - Tools, Shop & Garage Equip | 149 | (149) | 0 |
| 11 | Acct No. 346 - Communication Equipment | 853 | 7,150 | 8,003 |
| 12 | Rounding | 0 | 1 | 1 |
| 13 | TOTAL PLANT RECLASSIFICATIONS | \$509,276 | \$19,391 | \$528,667 |
| 14 | | | | |
| 15 | | | | |
| 16 | PLANT RECLASSIFICATIONS | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | DESCRIPTION | PLANT ADDITIONS | PLANT RECLASS | STAFF AS ADJUSTED |
| 20 | 2009 Plant Reclass, Acct No. 304 - Structures & Improvements | \$0 | \$36,913 | \$36,913 |
| 21 | Acct No. 304 - Structures & Improvements | 0 | 36,913 | 36,913 |
| 22 | | | | |
| 23 | 2013 Plant Reclass, Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 24 | Acct No. 307 - Wells & Springs | 0 | 539 | 539 |
| 25 | | | | |
| 26 | 2011 Plant Reclass, Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 27 | Acct No. 310 - Power Generation Equipment | 0 | 912 | 912 |
| 28 | | | | |
| 29 | 2011 Plant Reclass, Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 30 | Acct No. 311 - Pumping Equipment | 0 | (912) | (912) |
| 31 | | | | |
| 32 | 2009 Plant Reclass, Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 33 | Acct No. 320 - Water Treatment Equipment | 0 | (1,661) | (1,661) |
| 34 | | | | |
| 35 | 2009 Plant Reclass, Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 36 | Acct No. 320.2 - Solution Chemical Feeders | 0 | 1,661 | 1,661 |
| 37 | | | | |
| 38 | 2009 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,325) | (7,325) |
| 39 | 2010 Plant Reclass, Acct No. 330 - Distr Reserv & Standpipes | 0 | (450) | (450) |
| 40 | Acct No. 330 - Distr Reserv & Standpipes | 0 | (7,775) | (7,775) |
| 41 | | | | |
| 42 | 2009 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (29,588) | (29,588) |
| 43 | 2010 Plant Reclass, Acct No. 330.1 - Storage Tanks | 0 | (6,700) | (6,700) |
| 44 | Acct No. 330.1 - Storage Tanks | 0 | (36,288) | (36,288) |
| 45 | | | | |
| 46 | 2013 Plant Addition, Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 47 | Acct No. 341 - Transportation Equipment | 19,000 | 0 | 19,000 |
| 48 | | | | |
| 49 | 2013 Plant Reclass, Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 50 | Acct No. 343 - Tools, Shop & Garage Equip | 0 | (149) | (149) |
| 51 | | | | |
| 52 | 2010 Plant Reclass, Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 53 | Acct No. 346 - Communication Equipment | 0 | 7,150 | 7,150 |
| 54 | | | | |
| 55 | 2013 Rounding | 0 | 1 | 1 |
| 56 | Rounding | 0 | 1 | 1 |
| 57 | | | | |
| 58 | Total | \$19,000 | \$391 | \$19,391 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6
Column [B]: Testimony, TBH, Company's response to DR GM TBH 1.3
Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - UNSUPPORTED PLANT TREATED AS CIAC

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|-------------------------|--------------------------|--------------------------|
| 1 | CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,643 | \$9,643 |
| 2 | Amort of CIAC, Unsupported Plant Treated as CIAC | 0 | 309 | 309 |
| 3 | Net CIAC, Unsupported Plant Treated as CIAC | \$0 | \$9,334 | \$9,334 |

UNSUPPORTED PLANT TREATED AS CIAC

| DESCRIPTION | Plant Selected In Sample | Unsupported Plant Costs | Staff as Adjusted |
|---|--------------------------|-------------------------|-------------------|
| 2009 Plant Addition, Acct No. 304 - Structures & Improvements | \$0 | \$33,057 | \$33,057 |
| Acct No. 304 - Structures & Improvements Subtotal | 0 | 33,057 | 33,057 |
| 2009 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 38,822 | 38,822 |
| 2010 Plant Addition, Acct No. 330.1 - Storage Tanks | 0 | 14,477 | 14,477 |
| Acct No. 330.1 - Storage Tanks Subtotal | 0 | 53,299 | 53,299 |
| 2009 Plant Addition, Acct No. 331 - Transmission & Distribution Mains | 0 | 2,961 | 2,961 |
| Acct No. 331 - Transmission & Distribution Mains Subtotal | 0 | 2,961 | 2,961 |
| 2010 Plant Addition, Acct No. 320.2 - Solution Chemical Feeders | 0 | 416 | 416 |
| Acct No. 320.2 - Solution Chemical Feeders Subtotal | 0 | 416 | 416 |
| 2010 Plant Addition, Acct No. 346 - Communication Equipment | 0 | 6,700 | 6,700 |
| Acct No. 346 - Communication Equipment Subtotal | 0 | 6,700 | 6,700 |
| TOTAL UNSUPPORTED PLANT | \$0 | \$96,432 | \$96,432 |
| Total | | | \$96,432 |
| | | x | 10% |
| | | | \$9,643 |

CALCULATION OF AMORTIZATION OF CIAC ON UNSUPPORTED PLANT

| Year Added | Plant Additions | Unsupported Plant | Year Transferred To CIAC | 10% Plant in Service | Depreciation Rate | Amortization of CIAC |
|--------------|---------------------------|-------------------|--------------------------|----------------------|-------------------|----------------------|
| 2009 | Structures & Improvements | \$33,057 | 2013 | 3,306 | 3.33% | \$110 |
| 2009 | Storage Tanks | 38,822 | 2013 | 3,882 | 2.22% | 86 |
| 2009 | Trans. & Distr. Mains | 2,961 | 2013 | 296 | 2.00% | 6 |
| 2010 | Solution Chemical Feeders | 416 | 2013 | 42 | 20.00% | 8 |
| 2010 | Storage Tanks | 14,477 | 2013 | 1,448 | 2.20% | 32 |
| 2010 | Communication Equip. | 6,700 | 2013 | 670 | 10.00% | 67 |
| Total | | \$96,432 | | \$9,643 | | \$309 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.2 - 5.6
Column [B]: Testimony, TBH
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - AIAC REFUNDS NOT RECOGNIZED IN TEST YEAR

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction | \$8,256 | \$0 | \$8,256 |
| 2 | 2013 Deferred Credits, Acct No. 252 - Advances in Aid of Construction Payments Due Customers | 0 | (2,235) | (2,235) |
| 3 | Total AIAC paid in 2014 for 2013 refunds due customers | \$8,256 | (\$2,235) | \$6,022 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental Page 2

Column [B]: Testimony, TBH, Company's response to DR's GM TBH 1.19 and GM TBH 2.6.

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-9

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEPRECIATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--------------------------|----------------------------|-----------------------------|-----------------------------|
| 1 | Accumulated Depreciation | \$532,491 | \$5,552 | \$ 538,043 |

References:

Column [A]: Company's Application - Attachment No. 1 Supplemental 5.1 - 5.6
Column [B]: Testimony, TBH, Company Data Request Responses
Column [C] Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL ALLOWANCE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Cash Working Capital Allowance | \$10,662 | (\$313) | \$10,349 |
| 2 | | | | |
| 3 | Operation & Maintenance* | | | \$79,713 |
| 4 | Multiplied by | | X | 1/8 |
| 5 | | | | \$9,964 |
| 6 | | | | |
| 7 | Purchased Power & Purchased Water | | | \$9,241 |
| 8 | Multiplied by | | X | 1/24 |
| 9 | | | | \$385 |
| 10 | | | | |
| 11 | Total Cash Working Capital Allowance | | | \$10,349 |
| 12 | | | | |
| 13 | | | | |

* Less depreciation, taxes, purchased power and purchased water

References:

Column [A]: Company's Application Attachment No. 1 Supplemental Page 1

Column [B]: Testimony, TBH, Company Data Request Responses

Column [C] Column [A] + Column [B]

OPERATING INCOME - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

| LINE NO. | DESCRIPTION | [A] COMPANY TEST YEAR AS FILED | [B] STAFF TEST YEAR ADJUSTMENTS | ADJ NO. | [C] STAFF TEST YEAR AS ADJUSTED | [D] STAFF RECOMMENDED CHANGES | [E] STAFF RECOMMENDED |
|----------|---------------------------------|---|--|------------|---|--|-----------------------------|
| | REVENUES: | | | | | | |
| 1 | Metered Water Sales | \$114,273 | \$0 | | \$114,273 | \$62,184 | \$176,457 |
| 2 | Water Sales - Unmetered | 0 | 0 | | 0 | 0 | 0 |
| 3 | Other Operating Revenues | 3,174 | (127) | 1 | \$3,047 | 0 | 3,047 |
| 4 | Total Revenues | \$117,447 | (\$127) | | \$117,320 | \$62,184 | \$179,504 |
| | EXPENSES: | | | | | | |
| 7 | Salaries and Wages | \$38,942 | (\$389) | 8 | \$38,553 | \$0 | \$38,553 |
| 8 | Salaries and Wages - Officers | 6,000 | (896) | | 5,104 | 0 | 5,104 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 8 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 291 | 8 | 9,241 | 0 | 9,241 |
| 11 | Fuel for Power Production | 0 | 0 | | 0 | 0 | 0 |
| 12 | Chemicals | 47 | 66 | 8 | 113 | 0 | 113 |
| 13 | Repairs and Maintenance | 4,339 | (2,048) | 2, 8 | 2,291 | 0 | 2,291 |
| 14 | Office Supplies & Expense | 8,314 | (3,164) | 3, 8 | 5,150 | 0 | 5,150 |
| 15 | Contractual Services | 11,353 | (6,406) | 4, 8 | 4,947 | 0 | 4,947 |
| 16 | Water Testing | 5,380 | (3,530) | 5, 8 | 1,850 | 0 | 1,850 |
| 17 | Rents | 0 | 2,700 | 8 | 2,700 | 0 | 2,700 |
| 18 | Transportation Expenses | 5,453 | (236) | 6, 8 | 5,217 | 0 | 5,217 |
| 19 | Insurance - General Liability | 1,292 | 645 | 8 | 1,937 | 0 | 1,937 |
| 20 | Insurance - Health and Life | 0 | 640 | 8 | 640 | 0 | 640 |
| 21 | Reg. Comm. Exp. | 321 | 0 | | 321 | 0 | 321 |
| 22 | Reg. Comm. Exp. - Rate Case | 3,333 | 6,667 | 7 | 10,000 | 0 | 10,000 |
| 23 | Miscellaneous Expense | 102 | 16 | 8 | 118 | 0 | 118 |
| 24 | Bad Debt Expense | 772 | 0 | | 772 | 1,180 | 1,952 |
| 25 | Depreciation Expense | 27,096 | 5,338 | 9 | 32,434 | 0 | 32,434 |
| 26 | Taxes Other Than Income | 0 | 0 | | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | (642) | 10 | 4,410 | 856 | 5,266 |
| 28 | Payroll Taxes | 0 | 3,403 | 8 | 3,403 | 0 | 3,403 |
| 29 | Income Taxes | (1,147) | (1,890) | 11 | (3,037) | 9,796 | 6,759 |
| 30 | Rounding | 1 | 0 | | 1 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | \$564 | | \$126,164 | \$11,832 | \$137,996 |
| 32 | | | | | | | |
| 33 | Operating Income (Loss) | (\$8,153) | (\$691) | | (\$8,844) | \$50,352 | \$41,508 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Schedule TBH GM-16

Column [C]: Column [A] + Column [B]

Column [D]: Schedules TBH GM-1 and TBH GM-2

Column [E]: Column [C] + Column [D]

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) ADJ NO. 1 Unauthorized Surcharge - Other Revenue | (C) ADJ NO. 2 Repairs and Maintenance | (D) ADJ NO. 3 Office Supplies | (E) ADJ NO. 4 Contractual Services | (F) ADJ NO. 5 Water Testing | (G) ADJ NO. 6 Transportation | (H) ADJ NO. 7 Rate Case Expense | (I) ADJ NO. 8 Allocations to Water Companies | (J) ADJ NO. 9 Depreciation Expense | (K) ADJ NO. 10 Property Taxes | (L) ADJ NO. 11 Taxes Income Tax Expense | (M) STAFF ADJUSTED |
|----------|-------------------------------|----------------------|---|--|----------------------------------|---------------------------------------|--------------------------------|---------------------------------|------------------------------------|---|---------------------------------------|----------------------------------|--|--------------------|
| 1 | REVENUES | \$114,273 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$114,273 |
| 2 | Metered Water Sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Water Sales - Unmetered | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Other Operating Revenues | 3,174 | (127) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,047 |
| 5 | Total Revenues | \$117,447 | (\$127) | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$117,320 |
| 6 | OPERATING EXPENSES | | | | | | | | | | | | | |
| 7 | Salaries and Wages | \$38,942 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | (\$389) | \$0 | \$0 | \$0 | \$38,553 |
| 8 | Salaries and Wages - Officers | 6,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (896) | 0 | 0 | 0 | 5,104 |
| 9 | Employee Pensions & Benefits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Purchased Power | 8,950 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 291 | 0 | 0 | 0 | 9,241 |
| 11 | Fuel for Power Production | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 66 | 0 | 0 | 0 | 66 |
| 12 | Chemicals | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 47 |
| 13 | Repairs and Maintenance | 4,339 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,339 |
| 14 | Office Supplies & Expense | 8,314 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (257) | 0 | 0 | 0 | 8,057 |
| 15 | Contractual Services | 11,353 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (1,438) | 0 | 0 | 0 | 9,915 |
| 16 | Water Testing | 5,380 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,125 | 0 | 0 | 0 | 6,505 |
| 17 | Rents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 18 | Transportation Expenses | 5,453 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,700 | 0 | 0 | 0 | 8,153 |
| 19 | Insurance - General Liability | 1,292 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 645 | 0 | 0 | 0 | 1,937 |
| 20 | Insurance - Health and Life | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 640 | 0 | 0 | 0 | 640 |
| 21 | Reg Comm. Exp. | 321 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 321 |
| 22 | Reg Comm. Exp. - Rate Case | 3,333 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,333 |
| 23 | Miscellaneous Expenses | 102 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16 | 0 | 0 | 0 | 118 |
| 24 | Bad Debt Expense | 772 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 772 |
| 25 | Depreciation Expense | 27,096 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,338 | 0 | 0 | 32,434 |
| 26 | Taxes Other Than Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 27 | Property Taxes | 5,052 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5,052 |
| 28 | Payroll Taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | Income Taxes | (1,147) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,403 | 0 | 0 | (1,890) | (3,037) |
| 30 | Bonding | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 31 | Total Operating Expenses | \$125,600 | \$0 | (\$1,792) | (\$1,727) | (\$7,531) | (\$3,530) | (\$900) | \$6,667 | \$6,570 | \$5,338 | (\$642) | (\$1,890) | \$126,164 |
| 32 | Operating Income (Loss) | (\$8,153) | (\$127) | \$1,792 | \$1,727 | \$7,531 | \$3,530 | \$900 | (\$6,667) | (\$6,570) | (\$5,338) | \$642 | \$1,890 | (\$8,844) |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-13

OPERATING INCOME ADJUSTMENT NO. 1 - UNAUTHORIZED SURCHARGE - OTHER REVENUE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---------------------------|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Other Revenue - Surcharge | \$3,174 | (\$127) | \$3,047 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, TBH, DR GM TBH 1.31
Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 2 - REPAIRS AND MAINTENANCE

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|-------------|--|----------------------------|-----------------------------|-----------------------------|
| | | | | |
| 1 | Repairs and Maintenance | \$4,339 | (\$1,792) | \$2,547 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | Repairs & Maintenance | | | |
| 6 | To reclass cost of culvert from expenses to PTY Plant | | | |
| 7 | Payment for materials for culvert at Short Spur for new well | | \$3,292 | |
| 8 | Monies for half of the culvert for new well at Short Spur | | (1,500) | |
| 9 | Total reclass to CWIP | | | (\$1,792) |
| 10 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH, DR GM TBH 1.31

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-15

OPERATING INCOME ADJUSTMENT NO. 3 - OFFICE SUPPLIES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Office Supplies | \$8,314 | (\$1,727) | \$6,587 |
| 2 | | | | |
| 3 | Office Supplies | | | |
| 4 | Disallowed Expenses for Mr. Levie's Office Phone for Prop. Mgmt. | | (\$1,727) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-16

OPERATING INCOME ADJUSTMENT NO. 4 - CONTRACTUAL SERVICES

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Contractual Services | \$11,353 | (\$7,531) | \$3,822 |
| 2 | | | | |
| 3 | | | | |
| 4 | Contractual Services | | | |
| 5 | Engineering Expenses - Reclass to CWIP | (\$3,500) | | |
| 6 | New well testing on Short Spur - Reclass to CWIP | (3,045) | | |
| 7 | Contact Labor for rate case preparation - Reclass to Rate Case Expenses | (345) | | |
| 8 | Ariccor Watrr Solutions - Reclass to Rate Case Expenses | (641) | | |
| 9 | Total Contractual Services Reclassification | | (\$7,531) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-17

OPERATING INCOME ADJUSTMENT NO. 5 - WATER TESTING

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|---|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Water Testing | \$5,380 | (\$3,530) | \$1,850 |
| 2 | | | | |
| 3 | Reclassification of Water Testing Expenses | | | |
| 4 | Well No. 6 ADEQ Expenses - Reclass to CWIP | | (\$2,500) | |
| 5 | Storage Tank #3 ADEQ Expenses - Reclass to CWIP | | (1,800) | |
| 6 | Total Water Testing Reclassification | | | (\$4,300) |
| 7 | | | | |
| 8 | Water Testing Costs Per Table 4 - Engineering Report | | | |
| 9 | Actual Water Testing Costs | | \$1,850 | |
| 10 | Total Normalized Water Testing Costs | | | \$1,850 |
| 11 | | | | |
| 12 | | | | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, TBH, Engineering Report in Exhibit 1
Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-18

| OPERATING INCOME ADJUSTMENT NO. 6 - TRANSPORTATION | | | | |
|--|--|------------------|-------------------|-------------------|
| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Transportation Expenses | \$5,453 | (\$900) | \$4,553 |
| 2 | | | | |
| 3 | Transportation | | | |
| 4 | Disallowed Expenses for Gas Reimbursements | (\$900) | (\$900) | |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1
Column [B]: Testimony, Data Request Responses TBH 1.37 and TBH 2.13
Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-19

OPERATING INCOME ADJUSTMENT NO. 7 - RATE CASE

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|-------------------|-------------------------------|---|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS (Col C - Col A) | STAFF AS ADJUSTED |
| 1 | Rate Case Expense | \$3,333 | \$6,667 | \$10,000 |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | Company | Rate Case Expense as filed | Staff Adjusted Rate Case Expense | Difference |
| 8 | Chino Meadows | \$40,000 | \$45,000 | \$5,000 |
| 9 | Granite Mountain | 10,000 | 30,000 | 20,000 |
| 10 | Total | \$50,000 | \$75,000 | \$25,000 |

References:

Column [A]: Company Application Attachment No. 2 Supplemental Page 1

Column [B]: Testimony, Data Request Responses TBH 1.7 and TBH 2.4

Column [C]: Column [A] + Column [B]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED | [D] Chino Meadows as filed | [E] Original amount allocated to Granite Mountain | [F] Reclassification (\$15,718) | [G] Staff Adjustments Disallowance | [H] Normalize (\$13,834) | [I] Chino Meadows Direct | [J] Cost to be Allocated | [K] Portion allocated to unregulated Companies | [L] Amount allocated to unregulated Companies | [M] Amount allocated to regulated Companies | [N] Granite Mountain Adjusted 4-factor allocation | [O] Amount to be allocated to Granite Mountain | [P] Granite Mountain Direct |
|----------|-------------------------------|----------------------------|-----------------------------|-----------------------------|-------------------------------------|--|---------------------------------------|--|--------------------------------|-----------------------------------|--------------------------------|---|--|--|--|---|--------------------------------------|
| 1 | Salaries and Wages | \$38,942 | (\$389) | \$38,553 | \$179,965 | \$0 | (\$15,718) | (\$17,444) | \$13,834 | \$0 | \$160,638 | 0% | \$0 | \$160,638 | 24.00% | \$38,553 | \$0 |
| 2 | Salaries and Wages - Officers | 6,000 | | 5,104 | 31,700 | 6,000 | | (16,434) | | 0 | 21,266 | 10% | 249 | 2,244 | 24.00% | \$5,104 | 8,702 |
| 3 | Purchased Power | 8,950 | 47 | 9,241 | 24,401 | 247 | 0 | (46) | 0 | 22,110 | 2,493 | 0% | 0 | 2,244 | 24.00% | \$38 | 0 |
| 4 | Chemicals | 4,339 | (257) | 4,082 | 425 | 47 | 0 | 0 | 0 | 0 | 472 | 0% | 0 | 8,530 | 24.00% | 113 | 0 |
| 5 | Repairs and Maintenance | 8,314 | (1,438) | 6,876 | 8,999 | 633 | 1,281 | (124) | 0 | 2,159 | 8,530 | 0% | 0 | 15,812 | 24.00% | 2,047 | 2,035 |
| 6 | Office Supplies & Expense | 2,700 | 0 | 2,700 | 30,594 | 1,988 | (12,000) | (2,804) | (208) | 0 | 17,569 | 10% | 1,757 | 11,250 | 24.00% | 3,795 | 3,081 |
| 7 | Rents | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,000 | 25% | 0 | 0 | 24.00% | 2,700 | 0 |
| 8 | Contractual Services | 11,353 | 1,125 | 12,478 | 11,457 | 490 | (500) | (1,232) | 0 | 3,489 | 6,726 | 0% | 0 | 21,739 | 24.00% | 1,614 | 10,863 |
| 9 | Transportation Expenses | 5,453 | 664 | 6,117 | 24,752 | 2,736 | 1,817 | (7,380) | (186) | 0 | 21,739 | 0% | 0 | 8,072 | 24.00% | 5,217 | 900 |
| 10 | Insurance - General Liability | 1,292 | 645 | 1,937 | 8,964 | 996 | 0 | (1,098) | 594 | 0 | 9,496 | 15% | 1,424 | 0 | 24.00% | 1,937 | 0 |
| 11 | Insurance - Health and Life | 0 | 640 | 640 | 2,667 | 296 | 0 | 0 | 0 | 2,903 | 2,667 | 10% | 296 | 0 | 24.00% | 640 | 0 |
| 12 | Miscellaneous Expenses | 102 | 16 | 118 | 8,848 | 245 | (3,397) | 0 | 0 | 2,903 | 490 | 0% | 0 | 14,179 | 24.00% | 118 | 0 |
| 13 | Payroll Taxes | 0 | 3,403 | 3,403 | 0 | 0 | 15,718 | (1,539) | 0 | 0 | 14,179 | 0% | 0 | 0 | 24.00% | 3,403 | 0 |
| 14 | Total | \$84,792 | \$6,570 | \$91,362 | \$332,672 | \$16,678 | (\$729) | (\$50,362) | \$14,034 | \$30,661 | \$281,562 | 0% | \$7,477 | \$274,085 | | \$65,780 | \$25,382 |
| 15 | | | | | | | | | | | | | | | | | |
| 16 | | | | | | | | | | | | | | | | | |
| 17 | | | | | | | | | | | | | | | | | |
| 18 | | | | | | | | | | | | | | | | | |
| 19 | Salaries and Wages | | | | | | | | | | | | | | | | |
| 20 | Salaries and Wages - Officers | | | | | | | | | | | | | | | | |
| 21 | Purchased Power | | | | | | | | | | | | | | | | |
| 22 | Chemicals | | | | | | | | | | | | | | | | |
| 23 | Repairs and Maintenance | | | | | | | | | | | | | | | | |
| 24 | Office Supplies & Expense | | | | | | | | | | | | | | | | |
| 25 | Rents | | | | | | | | | | | | | | | | |
| 26 | Contractual Services | | | | | | | | | | | | | | | | |
| 27 | Transportation Expenses | | | | | | | | | | | | | | | | |
| 28 | Insurance - General Liability | | | | | | | | | | | | | | | | |
| 29 | Insurance - Health and Life | | | | | | | | | | | | | | | | |
| 30 | Miscellaneous Expenses | | | | | | | | | | | | | | | | |
| 31 | Payroll Taxes | | | | | | | | | | | | | | | | |
| 32 | | | | | | | | | | | | | | | | | |
| 33 | Total | | | | | | | | | | | | | | | | |

References:

- Column [A]: Company Application Attachment No. 2 Supplemental Page 1
- Column [B]: Column [C] - Column [A]
- Column [C]: Col [F] + Col [Q]
- Column [D]: Chino Meadows Schedule TBH CM-14
- Column [E]: Chino Meadows general ledger provided in DR CM TBH 1.3
- Column [F]: Schedule TBH CM-19b
- Column [G]: Schedule TBH CM-19c
- Column [H]: Chino Meadows Schedule TBH CM-20a, Co. [I]
- Column [I]: Col [D] + Col [E] + Col [F] + Col [G] + Col [H] - Col [J]
- Column [J]: Testimony, TBH
- Column [K]: Col [J] + Col [K]
- Column [L]: Col [J] + Col [K]
- Column [M]: Schedule TBH GM-20c
- Column [N]: Col [M] + Col [N]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS RECLASSIFICATIONS

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|--|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$15,718) | \$164,247 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 1,281 | 10,180 |
| 6 | Office Supplies & Expense | 30,594 | (12,000) | 18,594 |
| 7 | Rents | 0 | 12,000 | 12,000 |
| 8 | Contractual Services | 11,457 | (500) | 10,957 |
| 9 | Transportation Expenses | 24,752 | 1,817 | 26,569 |
| 10 | Insurance - General Liability | 8,964 | 0 | 8,964 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (3,397) | 5,451 |
| 13 | Payroll Taxes | 0 | 15,718 | 15,718 |
| 14 | | | | |
| 15 | Salaries and Wages | (\$15,718) | (\$15,718) | |
| 16 | Payroll taxes included as salaries and wages | | | |
| 17 | | | | |
| 18 | Repairs and Maintenance | (\$539) | | |
| 19 | To reclass expense to plant | 1,820 | \$1,281 | |
| 20 | Amount originally booked to Granite Mountain to be included in the cost pool | | | |
| 21 | | | | |
| 22 | Office Supplies & Expense | (\$12,000) | (\$12,000) | |
| 23 | Rent - Misclassified as Office Supplies | | | |
| 24 | | | | |
| 25 | Rents | \$12,000 | \$12,000 | |
| 26 | Rent - Misclassified as Office Supplies | | | |
| 27 | | | | |
| 28 | Contractual Services | (\$500) | (\$500) | |
| 29 | Survey for Granite Mountain Well No. 6 Site | | | |
| 30 | | | | |
| 31 | Transportation Expenses | \$1,817 | \$1,817 | |
| 32 | Amount originally booked to Granite Mountain to be included in the cost pool | | | |
| 33 | | | | |
| 34 | Miscellaneous Expenses | (\$3,000) | | |
| 35 | To correct for bad debt expenses included in miscellaneous expenses | (554) | | |
| 36 | Adjustment - Less Security Deposits Corrections | 157 | (\$3,397) | |
| 37 | To adjust for bad debts recovered and collection fees included in miscellaneous expenses | | | |
| 38 | | | | |
| 39 | Payroll Taxes | \$15,718 | \$15,718 | |
| 40 | Payroll taxes included as salaries and wages | | | |

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS DISALLOWED

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | (\$17,444) | \$162,521 |
| 2 | Salaries and Wages - Officers | 31,700 | (16,434) | 15,266 |
| 3 | Purchased Power | 24,401 | (46) | 24,355 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | (124) | 8,775 |
| 6 | Office Supplies & Expense | 30,594 | (2,804) | 27,790 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | (1,232) | 10,225 |
| 9 | Transportation Expenses | 24,752 | (7,380) | 17,372 |
| 10 | Insurance - General Liability | 8,964 | (1,058) | 7,906 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | (2,301) | 6,547 |
| 13 | Payroll Taxes | 0 | (1,539) | (1,539) |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Non-regulated salaries and wages | (\$17,444) | (\$17,444) | |
| 18 | | | | |
| 19 | Salaries and Wages - Officers | | | |
| 20 | Pay adjusted to reflect actual time worked | (\$11,761) | | |
| 21 | Duties assigned to office manager | (4,673) | (16,434) | |
| 22 | | | | |
| 23 | Purchased Power | | | |
| 24 | To adjust for late fees | (\$46) | (\$46) | |
| 25 | | | | |
| 26 | Repairs and Maintenance | | | |
| 27 | To adjust for personal expense | (\$124) | (\$124) | |
| 28 | | | | |
| 29 | Office Supplies & Expense | | | |
| 30 | Interest and Late Fees | (\$44) | | |
| 31 | Mrs. Levie Phone & Charges, Collect Calls, Paul International Call & Plan | (1,888) | | |
| 32 | Meals | (218) | | |
| 33 | Miscellaneous Personal Expenses | (524) | | |
| 34 | 2010 Expense | (130) | (\$2,804) | |
| 35 | | | | |
| 36 | Contractual Services | | | |
| 37 | Legal Fees for Fire | (\$1,232) | (\$1,232) | |
| 38 | | | | |
| 39 | Transportation Expenses | | | |
| 40 | Gas Reimbursement \$100 per month - Company no longer providing | (\$800) | | |
| 41 | Personal Use Purchases - Tires | (2,497) | | |
| 42 | Out of State Gasoline Purchase | (2,229) | | |
| 43 | Bulk Delivery of Gasoline to Paul's Home (530 gallons) | (1,854) | (\$7,380) | |
| 44 | | | | |
| 45 | Insurance - General Liability | | | |
| 46 | Remove Vehicle AZ-1 TBH 1.39 Unregulated Associated Co. | (\$1,058) | (\$1,058) | |
| 47 | | | | |
| 48 | Miscellaneous Expenses | | | |
| 49 | Gifts | (\$1,559) | | |
| 50 | Meals | (683) | | |
| 51 | Donations | (60) | (\$2,301) | |
| 52 | | | | |
| 53 | Payroll Taxes | | | |
| 54 | Non-regulated payroll taxes | (\$1,539) | (\$1,539) | |

Granite Mountain Water Co., Inc.
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Final Schedule TBH GM-20d

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS NORMALIZATION

| LINE NO. | DESCRIPTION | [A] COMPANY AS FILED | [B] STAFF ADJUSTMENTS | [C] STAFF AS ADJUSTED |
|----------|---|----------------------------|-----------------------------|-----------------------------|
| 1 | Salaries and Wages | \$179,965 | \$13,834 | \$193,799 |
| 2 | Salaries and Wages - Officers | 31,700 | 0 | 31,700 |
| 3 | Purchased Power | 24,401 | 0 | 24,401 |
| 4 | Chemicals | 425 | 0 | 425 |
| 5 | Repairs and Maintenance | 8,899 | 0 | 8,899 |
| 6 | Office Supplies & Expense | 30,594 | (208) | 30,386 |
| 7 | Rents | 0 | 0 | 0 |
| 8 | Contractual Services | 11,457 | 0 | 11,457 |
| 9 | Transportation Expenses | 24,752 | (186) | 24,566 |
| 10 | Insurance - General Liability | 8,964 | 594 | 9,558 |
| 11 | Insurance - Health and Life | 2,667 | 0 | 2,667 |
| 12 | Miscellaneous Expenses | 8,848 | 0 | 8,848 |
| 13 | Payroll Taxes | 0 | 0 | 0 |
| 14 | | | | |
| 15 | | | | |
| 16 | Salaries and Wages | | | |
| 17 | Normalize salaries and benefits | \$13,834 | \$13,834 | |
| 18 | | | | |
| 19 | Office Supplies & Expense | | | |
| 20 | Normalize Carbonite over 3 years | (\$94) | | |
| 21 | Normalize GoDaddy 5 year contract | (114) | (\$208) | |
| 22 | | | | |
| 23 | Transportation Expenses | | | |
| 24 | Normalize Vehicle Registration for 2 years | (\$186) | (\$186) | |
| 25 | | | | |
| 26 | Insurance - General Liability | | | |
| 27 | Normalize Insurance Policy adjustment for refunds | \$594 | \$594 | |

OPERATING INCOME ADJUSTMENT NO. 8 - 4-FACTOR ALLOCATION CALCULATION

| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] |
|----------|------------------|----------------|------------------|----------------------|------------------------|----------------------|------------------|-----------------------------|------------------|----------------|---------------------------|
| Line No. | Company | Customer count | Customer count % | Net Plant in service | Net Plant in service % | Total Annual Revenue | Annual Revenue % | Total Annual Gallons Pumped | Gallons Pumped % | 4-factor % | Staff Adjusted 4-factor % |
| 1 | Antelope Lakes | 2 | 0.20% | \$62,347 | 11.34% | \$613 | 0.13% | 95 | 0.13% | 2.95% | 1.00% |
| 2 | Chino Meadows | 899 | 87.96% | 173,351 | 31.54% | 357,364 | 75.17% | 64,140 | 85.81% | 70.12% | 75.00% |
| 3 | Granite Mountain | 121 | 11.84% | 313,950 | 57.12% | 117,447 | 24.70% | 10,510 | 14.06% | 26.93% | 24.00% |
| 4 | Total | 1,022 | | \$549,648 | | \$475,424 | | 74,745 | | 100.00% | 100.00% |

References:

Column [A]: The Customer counts for Chino Meadows and Granite Mountain the applications; and for Antelope Lakes, the 2013 Annual Report, p. 12 as of 12/31/2013

Column [B]: Column [A] / Line 4.

Column [C]: The Net Plant in service information for Chino Meadows and Granite Mountain are from the applications & Schedule TBH-4; the information for Antelope Lakes is from the 2013 Annual Report on Revised Balance Sheet, p. 6 as of

Column [D]: Column [C] / Line 4.

Column [E]: The Total Annual Revenue information for Chino Meadows and Granite Mountain are from the applications; the information for Antelope Lakes, is from the 2013 Annual Report, p. 8 as of 12/31/2013

Column [F]: Column [E] / Line 4.

Column [G]: The Total Annual Gallons Pumped information for Chino Meadows and Granite Mountain is from the application; the information for Antelope Lakes, is from the 2013 Annual Report on Revised Balance Sheet, p. 12 as of 12/31/2013

Column [H]: Column [G] / Line 4.

Column [I]: Average of Columns [B, D, F, and H].

Column [J]: Staff Adjusted 4-factor percentage. Discussed in Surrebuttal Testimony.

Granite Mountain Water Co., Inc.
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OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS SALARIES & WAGES CALCULATION

| LINE NO. | [A] 2014 Current Salaries | [B] 2014 Current or Estimated Hourly Rate | [C] 2014 Current or Estimated Salary and Wages | [D] 2014 Current or Estimated Payroll Taxes | [E] Non-Regulated ¹ Hours | [F] 2014 Non-Regulated Salary and Wages | [G] 2014 Non-Regulated Payroll Taxes | [H] Staff Adjusted Salaries and Wages | [I] Staff Adjusted Payroll Taxes |
|----------|---------------------------------|--|---|--|--|--|---|---|--|
| 1 | Barney ² | \$26.61 | \$55,356 | \$4,670 | 10% | \$5,536 | \$467 | \$49,821 | \$4,203 |
| 2 | Nelson | 14.50 | 30,160 | 2,714 | 5% | 1,508 | 136 | 28,652 | 2,579 |
| 3 | Lopez | 17.50 | 36,400 | 3,276 | | | | 36,400 | 3,276 |
| 4 | Feichter | 14.50 | 30,160 | 2,714 | | | | 30,160 | 2,714 |
| 5 | Magnussen | 12.50 | 26,000 | 2,340 | 40% | 10,400 | 936 | 15,600 | 1,404 |
| 6 | Rounding | 0.00 | 5 | 3 | | | | 5 | 3 |
| 7 | Total | | \$178,082 | \$15,718 | | \$17,444 | \$1,539 | \$160,638 | \$14,179 |

¹ 1 Hours per week/2,080 hours per year. Percentages provided by Chino Meadows (CM) and Granite Mountain (GM) in DRs CM TBH-2.12h, CM TBH-2.5 and GM TBH-2.5g.

² Per TBH 1.25g. Barney \$13,000 bonuses to adjust pay to match responsibilities.

References:

Column [A]: Company Schedule C-2

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - ALLOCATIONS OFFICER'S SALARIES CALCULATION

| LINE NO. | DESCRIPTION | [A] | |
|----------|--|----------------|------------------------|
| | | Officer Salary | Hours worked per month |
| 1 | Supervision and management of company personnel | | 12 |
| 2 | Oversight of company operations | | 6 |
| 3 | Provide strategic direction | | 6 |
| 4 | Review company financial data including payables, receivable, revenue and expenses | | 12 |
| 5 | Provide legal representation for Company | | 8 |
| 6 | Review payroll and sign checks | | 4 |
| 7 | Review and authorize all vendor payments | | 4 |
| 8 | Acquire regulate and oversee company loans and long-term debts | | 8 |
| 9 | Meeting with operations management to review capital program and address operational issues and ensure proper facilities and equipment are available | | 20 |
| 10 | Develop and review company processes and procedures to ensure regulatory compliance | | 8 |
| 11 | Review & advise Company on manuals such as employee handbook & emergency response manual | | 1 |
| 12 | Total Monthly Hours | | 89 |
| 13 | | | |
| 14 | Less hours out of town (33 percent of the total monthly hours) | | 29.37 |
| 15 | Adjusted Hours | | 59.63 |
| 16 | | | |
| 17 | Adjusted Hours * \$36.25 ¹ * 12 months | \$25,939 | |
| 18 | Less Additional Increase for Operations Manager from 2013 to 2014 ² | (4,673) | |
| 19 | Adjusted Officers Salary | \$21,266 | |
| 20 | ¹ Based on Annual Salary of Mr. Levie (Half Time Employee) \$31,700 for Chino Meadows and \$6,000 for Granite Mountain = | | |
| 21 | \$37,700. Annual Salary / 1,040 hours per year (52 weeks x 20 hours per week) = Hourly Rate of \$36.25 | | |
| 22 | ² Operations Manager's Salary for 2013 was \$50,683 and for 2014 was \$55,356. The additional increase is \$4,673. | | |

References:

Column [A] : Per DRs CM TBH 1.26.g, CM TBH 2.12, CM TBH 3.7 and GM TBH 2.5

| LINE NO. | ACCT NO. | DESCRIPTION | PLANT IN SERVICE Per Staff | Non-Depreciable or Fully Depreciated PLANT | DEPRECIABLE PLANT (Col A - Col B) | DEPRECIATION RATE | DEPRECIATION EXPENSE (Col C x Col D) |
|----------|----------|---|-------------------------------|--|---|----------------------|--|
| 1 | 301 | Organization Cost | \$110 | \$110 | \$0 | 0.00% | \$0 |
| 2 | 302 | Franchises | 0 | 0 | 0 | 0.00% | 0 |
| 3 | 303 | Land and Land Rights | 14,700 | 14,700 | 0 | 0.00% | 0 |
| 4 | 304 | Structures and Improvements | 68,126 | 0 | 68,126 | 3.33% | 2,269 |
| 5 | 307 | Wells and Springs | 60,946 | 0 | 60,946 | 3.33% | 2,029 |
| 6 | 309 | Supply Mains | 0 | 0 | 0 | 2.00% | 0 |
| 7 | 310 | Power Generation Equipment | 912 | 0 | 912 | 5.00% | 46 |
| 8 | 311 | Pumping Equipment | 121,906 | 108,950 | 12,956 | 12.50% | 1,620 |
| 9 | 320 | Water Treatment Equipment | | | | | |
| 10 | 320.1 | Water Treatment Plants | 0 | 0 | 0 | 3.33% | 0 |
| 11 | 320.2 | Solution Chemical Feeders | 7,745 | 2,077 | 5,668 | 20.00% | 1,134 |
| 12 | 330 | Distribution Reservoirs and Standpipes | | | | | |
| 13 | 330.1 | Storage Tanks | 172,640 | 0 | 172,640 | 2.22% | 3,833 |
| 14 | 330.2 | Pressure Tanks | 55,213 | 0 | 55,213 | 5.00% | 2,761 |
| 15 | 331 | Transmission and Distribution Mains | 450,034 | 0 | 450,034 | 2.00% | 9,001 |
| 16 | 333 | Services | 55,934 | 0 | 55,934 | 3.33% | 1,863 |
| 17 | 334 | Meters and Meter Installations | 6,652 | 0 | 6,652 | 8.33% | 554 |
| 18 | 335 | Hydrants | 8,774 | 0 | 8,774 | 2.00% | 175 |
| 19 | 336 | Backflow Prevention Devices | 1,428 | 0 | 1,428 | 6.67% | 95 |
| 20 | 339 | Other Plant and Miscellaneous Equipment | 4,850 | 0 | 4,850 | 6.67% | 323 |
| 21 | 340 | Office Furniture and Equipment | 0 | 0 | 0 | 6.67% | 0 |
| 22 | 340.1 | Computers and Software | 3,500 | 0 | 3,500 | 20.00% | 700 |
| 23 | 341 | Transportation Equipment | 26,456 | 0 | 26,456 | 20.00% | 5,291 |
| 24 | 343 | Tools, Shop, and Garage Equipment | 0 | 0 | 0 | 5.00% | 0 |
| 25 | 344 | Laboratory Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 26 | 345 | Power Operated Equipment | 5,000 | 0 | 5,000 | 5.00% | 250 |
| 27 | 346 | Communication Equipment | 8,003 | 0 | 8,003 | 10.00% | 800 |
| 28 | 347 | Miscellaneous Equipment | 0 | 0 | 0 | 10.00% | 0 |
| 29 | 348 | Other Tangible Equipment | 20 | 20 | 0 | 0.00% | 0 |
| 30 | | Rounding | 1 | 0 | 1 | 0.00% | 0 |
| 31 | | Total Plant | \$1,072,951 | \$125,857 | \$947,094 | | \$32,743 |
| 32 | | | | | | | |
| 33 | | | | | | | |
| 34 | | | | | | | |
| 35 | | | | | | | |
| 36 | | | | | | | |
| 37 | | | | | | | |
| 38 | | | | | | | |
| 39 | | | | | | | |
| 40 | | | | | | | |
| 41 | | | | | | | |
| 42 | | | | | | | |
| 43 | | | | | | | |

| Amortization of Plant based on Appropriate Depreciation Rates: | | | |
|--|------------------|--------------------|----------------------|
| Description | Plant in Service | Depreciation Rates | Amortization of CIAC |
| Structures & Improvements | 3,306 | 3.33% | \$110 |
| Storage Tanks | 3,882 | 2.22% | 86 |
| Trans. & Distr. Mains | 296 | 2.00% | 6 |
| Solution Chemical Feeders | 42 | 20.00% | 8 |
| Storage Tanks | 1,448 | 2.20% | 32 |
| Communication Equip. | 670 | 10.00% | 67 |
| Totals | \$9,643 | | \$309 |

| | |
|--|----------|
| Amortization of CIAC (Depreciation Rates Identified): | \$309 |
| CIAC Plant in Service (Depreciation Rates Identified): | \$9,643 |
| | |
| Depreciation Expense Before Amortization of CIAC: | \$32,743 |
| Less Amortization of CIAC: | 309 |
| Test Year Depreciation Expense - Staff: | \$32,434 |
| Depreciation Expense - Company: | 27,096 |
| Staff's Total Adjustment: | \$5,338 |

Column [A]: Schedule TBH GM-4
 Column [B]: From Column [A]
 Column [C]: Column [A] - Column [B]
 Column [D]: Engineering Staff Report
 Column [E]: Column [C] x Column [D]

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-22

OPERATING INCOME ADJUSTMENT NO 10 - PROPERTY TAX EXPENSE

| LINE NO. | Property Tax Calculation | [A] STAFF AS ADJUSTED | [B] STAFF RECOMMENDED |
|----------|---|-----------------------------|-----------------------------|
| 1 | Staff Adjusted Test Year Revenues | \$117,320 | \$117,320 |
| 2 | Weight Factor | 2 | 2 |
| 3 | Subtotal (Line 1 * Line 2) | \$234,640 | \$234,640 |
| 4 | Staff Recommended Revenue, Per Schedule TBH-1 | 117,320 | 179,504 |
| 5 | Subtotal (Line 4 + Line 5) | \$351,960 | \$414,144 |
| 6 | Number of Years | 3 | 3 |
| 7 | Three Year Average (Line 5 / Line 6) | \$117,320 | \$138,048 |
| 8 | Department of Revenue Multiplier | 2 | 2 |
| 9 | Revenue Base Value (Line 7 * Line 8) | \$234,640 | \$276,096 |
| 10 | Plus: 10% of CWIP | 0 | 0 |
| 11 | Less: Net Book Value of Licensed Vehicles - Schedule TBH-19 Line 23 | \$21,165 | \$21,165 |
| 12 | Full Cash Value (Line 9 + Line 10 - Line 11) | \$213,475 | \$254,931 |
| 13 | Assessment Ratio | 18.50% | 18.50% |
| 14 | Assessment Value (Line 12 * Line 13) | \$39,493 | \$47,162 |
| 15 | Composite Property Tax Rate | 11.17% | 11.17% |
| 16 | Staff Test Year Adjusted Property Tax (Line 14 * Line 15) | \$4,410 | \$0 |
| 17 | Company Proposed Property Tax | \$5,052 | |
| 18 | Staff Test Year Adjustment (Line 16-Line 17) | (\$642) | |
| 19 | Property Tax - Staff Recommended Revenue (Line 14 * Line 15) | | \$5,266 |
| 20 | Staff Test Year Adjusted Property Tax Expense (Line 16) | | 4,410 |
| 21 | Increase in Property Tax Expense Due to Increase in Revenue Requirement | | 856 |
| 22 | Increase to Property Tax Expense | | \$856 |
| 23 | Increase in Revenue Requirement | | \$62,184 |
| 24 | Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20) | | 1.38% |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-23

OPERATING INCOME ADJUSTMENT NO. 11 - TEST YEAR INCOME TAXES

| LINE NO. | DESCRIPTION | (A) | (B) | (C) |
|-------------|--------------------|---------------------|---|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS (Col C - Col A) | STAFF AS ADJUSTED |
| 1 | Income Tax Expense | (1,147) | (1,890) | (3,037) |
| 2 | Total | (1,147) | (1,890) | (3,037) |

Granite Mountain Water Co., Inc.
Docket No. W-02467A-14-0230
Test Year Ended December 31, 2013

Final Schedule TBH GM-24

**PROPERTY TAX ADJUSTMENT NO. 1 - ADJUSTMENTS TO CONSTRUCTION WORK IN PROGRESS AND
ADDITIONS FOR STORAGE TANK NO. 3**

| LINE NO. | DESCRIPTION | [A] | [B] | [C] |
|-------------|--|---------------------|----------------------|----------------------|
| | | COMPANY AS FILED | STAFF ADJUSTMENTS | STAFF AS ADJUSTED |
| 1 | Company Proposed Construction Work in Progress | \$0 | \$0 | \$0 |
| 2 | | | | |

References:

Column [A]: Company Balance Sheet Acct. No. 105

Column [B]: Testimony, TBH

Column [C]: Column [A] + Column [B]

RELATED PARTY TRANSACTIONS - COMPANY FAILED TO APPROPRIATELY COLLECT REVENUE PURSUANT TO DECISION 71869 (UNCOLLECTED RELATED PARTY TRANSACTIONS IN TEST YEAR)

| [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] | [L] | [M] | [N] | [O] | [P] |
|----------------|----------------------------------|------------------|----------------|------------|----------|-----------|------------|--------------|------------|------------|-----------------------------|-------------------------------------|-------------------|--|-----|
| Water Acct No. | Name on Account | Balance 12/31/12 | Account Status | Water | Taxes | Surcharge | Penalty | Adjustments | Revenue | Total | Staff Adjusted Revenue 2013 | Staff Adjusted Balance Due 12/31/13 | Date Range | # of Bills Not Appropriately Collected | |
| 80.002.01 | Levie, Daniel P ¹ | \$3,569.03 | Active | \$2,873.68 | \$208.53 | \$3.03 | \$811.41 | (\$1,564.42) | \$0.00 | \$2,332.23 | \$3,688.12 | \$7,265.68 | 11.13 to 12.31.13 | 24 | |
| 81.002.01 | Levie, Daniel P ² | 4,381.13 | Active | 2,386.77 | 157.77 | 2.30 | 811.54 | 0.00 | 0.00 | 3,378.38 | 3,220.61 | \$7,759.51 | 11.13 to 12.31.13 | 29 | |
| 80.001.02 | Granite Mtn Stables ⁴ | 428.15 | Active | 2,009.92 | 135.93 | 1.99 | 111.29 | 0.00 | (1,530.00) | 729.13 | 593.20 | \$1,157.28 | 11.13 to 12.31.13 | 40 | |
| 80.012.00 | Levie, Daniel P ³ | 244.38 | Active | 842.40 | 48.94 | 0.72 | 50.44 | 0.00 | 0.00 | 942.50 | 893.56 | \$1,186.88 | 11.13 to 12.31.13 | 29 | |
| Totals | | \$8,422.69 | | \$8,112.77 | \$551.17 | \$8.04 | \$1,804.68 | (\$1,564.42) | \$1,530.00 | \$7,382.24 | \$8,395.49 | \$17,369.35 | | 122 | |

¹ Staff did not include any adjustments in the Adjusted Revenue.
² Per Decision 71869 Page 23 Line 16, Identified as Daniel's Home Property. Adjustment for Water Leak and Late Fees GM TBH 2.9, Balance paid by Mr. Paul Leve \$5,701.26. However, DT GM TBH 3.10 states Check for \$2,201.26 and offset for \$1,500 for check to Mr. Daniel Leve for work on Culvert for \$1,500 Check 5403 (voided) in GM TBH 2.15. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 12/2011 to 11/2013.
³ Payment made by Mr. Paul Leve per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.
⁴ Per Decision 71869 Page 23 Line 17, Identified as Stables Property. Sporadic Payments made in 5 payments through Test year. Not properly collected on since 9/2010.
⁵ Payment made by Mr. Paul Leve per DR GM TBH 3.10 for \$7,759.51. Copy of Check for payment DR GM TBH 3.11. Not properly collected from 7/2011 to 11/2013.

References:
Column [A]: Company C-1
Column [B]: Testimony, GM TBH 1.42, GM TBH 2.15, GM TBH 2.9, GM TBH 3.10, GM TBH 3.11
Column [C]: Column [A] + Column [B]

| RATE DESIGN | | | | | |
|---|---------------|--|------------------------|--|-------------------------|
| Monthly Usage Charge | Present Rates | | Company Proposed Rates | | Staff Recommended Rates |
| <u>Meter Size (All Classes):</u> | | | | | |
| 5/8 x 3/4 Inch | \$ 25.00 | | \$ 38.50 | | \$ 37.50 |
| 3/4 Inch | 37.50 | | 57.75 | | 56.25 |
| 1 Inch | 62.50 | | 96.25 | | 93.75 |
| 1 1/2 Inch | 125.00 | | 192.50 | | 187.50 |
| 2 Inch | 200.00 | | 308.00 | | 300.00 |
| 3 Inch | 400.00 | | 616.00 | | 600.00 |
| 4 Inch | 625.00 | | 962.50 | | 937.50 |
| 6 Inch | 1,250.00 | | 1,925.00 | | 1,875.00 |
| <u>Commodity Charge - Per 1,000 Gallons</u> | | | | | |
| <u>5/8" x 3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | 6.75 |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | 10.25 |
| Over 8,000 gallons | N/A | | 12.00 | | 12.00 |
| <u>5/8" x 3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 8,000 gallons | N/A | | N/A | | 10.25 |
| Over 8,000 gallons | N/A | | N/A | | 12.00 |
| <u>3/4" Meter (Residential)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | 6.75 |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | 10.25 |
| Over 8,000 gallons | N/A | | 12.00 | | 12.00 |
| <u>3/4" Meter (Commercial)</u> | | | | | |
| First 4,000 gallons | 4.40 | | N/A | | N/A |
| 4,001 to 10,000 gallons | 6.60 | | N/A | | N/A |
| Over 10,000 gallons | 7.90 | | N/A | | N/A |
| First 3,000 gallons | N/A | | 6.80 | | N/A |
| 3,001 to 8,000 gallons | N/A | | 10.00 | | N/A |
| Over 8,000 gallons | N/A | | 12.00 | | N/A |
| First 8,000 gallons | N/A | | N/A | | 10.25 |
| Over 8,000 gallons | N/A | | N/A | | 12.00 |
| <u>1" Meter (All Classes)</u> | | | | | |
| First 10,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 10,000 gallons | 7.90 | | 12.00 | | 12.00 |

RATE DESIGN CONT.

Final Schedule TBH GM-26

Page 2 of 2

| | | | | | |
|------------------------------------|------|--|-------|--|-------|
| <u>1 1/2" Meter (All Classes)</u> | | | | | |
| First 20,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 20,000 gallons | 7.90 | | 12.00 | | 12.00 |
| <u>2" Meter (All Classes)</u> | | | | | |
| First 40,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 40,000 gallons | 7.90 | | 12.00 | | 12.00 |
| <u>3" Meter (All Classes)</u> | | | | | |
| First 144,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 144,000 gallons | 7.90 | | 12.00 | | 12.00 |
| <u>4" Meter (All Classes)</u> | | | | | |
| First 225,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 225,000 gallons | 7.90 | | 12.00 | | 12.00 |
| <u>6" Meter (All Classes)</u> | | | | | |
| First 450,000 gallons | 6.60 | | 10.00 | | 10.25 |
| Over 450,000 gallons | 7.90 | | 12.00 | | 12.00 |
| <u>Construction/Standpipe</u> | | | | | |
| All Gallons | 7.90 | | 12.00 | | 12.00 |
| <u>Hydrant Meter by Meter Size</u> | | | | | |
| <u>(Not Individually Assigned)</u> | | | | | |
| All Usage, Per 1,000 Gallons | 7.90 | | 12.00 | | 12.00 |

Other Service Charges

| | | | | | |
|--|----------------|--|----------------|--|----------------|
| Establishment | \$ 25.00 | | \$ 25.00 | | \$ 25.00 |
| Establishment (After Hours) | 35.00 | | N/A | | N/A |
| Reestablishment (within 12 months) | * | | * | | * |
| Reconnection (Delinquent) | 35.00 | | 35.00 | | 35.00 |
| Reconnection (Delinquent) - After Hours | 45.00 | | N/A | | N/A |
| Meter Test (If Correct) | 35.00 | | 35.00 | | 35.00 |
| Meter Re-Read (If Correct) | 15.00 | | 15.00 | | 15.00 |
| Deposit | ** | | ** | | ** |
| Deposit Interest | ** | | ** | | ** |
| NSF Check | 20.00 | | 20.00 | | 20.00 |
| Deferred Payment (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Late Payment Fee (per month) | 1.5% per month | | 1.5% per month | | 1.5% per month |
| Moving Customer Meter (Customer Request) | At Cost | | At Cost | | At Cost |
| After Hour Service Charge (at customers request) | N/A | | 25.00 | | 25.00 |

* Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

** Per A.A.C. R14-2-403(B).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per commission rule 14-2-409D(5).

Service and Meter Installation Charges

| Service Size | Total Present Charge | Proposed Service Line Charge | Proposed Meter Installation Charge | Total Proposed Charge | Recommended Service Line Charge | Recommended Meter Installation Charge | Total Recommended Charge |
|----------------|----------------------|------------------------------|------------------------------------|-----------------------|---------------------------------|---------------------------------------|--------------------------|
| 5/8 x 3/4 Inch | \$ 500.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 | \$ 450.00 | \$ 150.00 | \$ 600.00 |
| 3/4 Inch | 575.00 | 450.00 | 250.00 | 700.00 | 450.00 | 250.00 | 700.00 |
| 1 Inch | 650.00 | 575.00 | 300.00 | 875.00 | 575.00 | 300.00 | 875.00 |
| 1 1/2 Inch | 716.00 | 675.00 | 500.00 | 1,175.00 | 675.00 | 500.00 | 1,175.00 |
| 2 Inch | 1,572.00 | 1,000.00 | 1,500.00 | 2,500.00 | 1,000.00 | 1,500.00 | 2,500.00 |
| 3 Inch | 2,400.00 | 1,300.00 | 2,000.00 | 3,300.00 | 1,300.00 | 2,000.00 | 3,300.00 |
| 4 Inch | 3,516.00 | 1,800.00 | 3,500.00 | 5,300.00 | 1,800.00 | 3,500.00 | 5,300.00 |
| 6 Inch | 6,916.00 | 2,800.00 | 6,000.00 | 8,800.00 | 2,800.00 | 6,000.00 | 8,800.00 |
| Over 6 Inch | N/A | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost | Actual Cost |

Granite Mountain Water Company Inc.
Docket No. W-02467A-14-0230
Test Year Ended: December 31, 2013

Final Schedule TBH GM-27

| Typical Bill Analysis General Service 5/8 x 3/4-Inch Meter | | | | | | |
|--|----------|--------------------|------------------|--------------------|-------------------|------------------|
| Company Proposed | Gallons | | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
| Average Usage | 6,411 | | \$ 58.51 | \$ 93.01 | \$ 34.50 | 58.96% |
| Median Usage | 3,684 | | 41.21 | 65.74 | \$ 24.53 | 59.53% |
| Staff Recommended | | | | | | |
| Average Usage | 6,411 | | \$ 58.51 | \$ 92.71 | \$ 34.20 | 58.45% |
| Median Usage | 3,684 | | 41.21 | 64.76 | \$ 23.55 | 57.15% |
| Present & Proposed Rates (Without Taxes) General Service 5/8 x 3/4-Inch Meter | | | | | | |
| | Present | | Company Proposed | % | Staff Recommended | % |
| 5/8" x 3/4" | | 5/8" x 3/4" | | 5/8" x 3/4" | | |
| Minimum Charge | \$ 25.00 | Minimum Charge | \$ 38.50 | Minimum Charge | \$ 37.50 | |
| 1st Tier Rate | 4.40 | 1st Tier Rate | 6.80 | 1st Tier Rate | 6.75 | |
| 1st Tier Breakover | 4,000 | 1st Tier Breakover | 3,000 | 1st Tier Breakover | 3,000 | |
| 2nd Tier Rate | 6.60 | 2nd Tier Rate | 10.00 | 2nd Tier Rate | 10.25 | |
| 2nd Tier Breakover | 10,000 | 2nd Tier Breakover | 8,000 | 2nd Tier Breakover | 8,000 | |
| 3rd Tier Rate | 7.90 | 3rd Tier Rate | 12.00 | 3rd Tier Rate | 12.00 | |
| Gallons Consumption | Rates | | Rates | Increase | Rates | Increase |
| - | \$ 25.00 | | \$ 38.50 | 54.00% | \$ 37.50 | 50.00% |
| 1,000 | 29.40 | | 45.30 | 54.08% | 44.25 | 50.51% |
| 2,000 | 33.80 | | 52.10 | 54.14% | 51.00 | 50.89% |
| 3,000 | 38.20 | | 58.90 | 54.19% | 57.75 | 51.18% |
| 4,000 | 42.60 | | 68.90 | 61.74% | 68.00 | 59.62% |
| 5,000 | 49.20 | | 78.90 | 60.37% | 78.25 | 59.04% |
| 6,000 | 55.80 | | 88.90 | 59.32% | 88.50 | 58.60% |
| 7,000 | 62.40 | | 98.90 | 58.49% | 98.75 | 58.25% |
| 8,000 | 69.00 | | 108.90 | 57.83% | 109.00 | 57.97% |
| 9,000 | 75.60 | | 120.90 | 59.92% | 121.00 | 60.05% |
| 10,000 | 82.20 | | 132.90 | 61.68% | 133.00 | 61.80% |
| 11,000 | 90.10 | | 144.90 | 60.82% | 145.00 | 60.93% |
| 12,000 | 98.00 | | 156.90 | 60.10% | 157.00 | 60.20% |
| 13,000 | 105.90 | | 168.90 | 59.49% | 169.00 | 59.58% |
| 14,000 | 113.80 | | 180.90 | 58.96% | 181.00 | 59.05% |
| 15,000 | 121.70 | | 192.90 | 58.50% | 193.00 | 58.59% |
| 16,000 | 129.60 | | 204.90 | 58.10% | 205.00 | 58.18% |
| 17,000 | 137.50 | | 216.90 | 57.75% | 217.00 | 57.82% |
| 18,000 | 145.40 | | 228.90 | 57.43% | 229.00 | 57.50% |
| 19,000 | 153.30 | | 240.90 | 57.14% | 241.00 | 57.21% |
| 20,000 | 161.20 | | 252.90 | 56.89% | 253.00 | 56.95% |
| 25,000 | 200.70 | | 312.90 | 55.90% | 313.00 | 55.95% |
| 30,000 | 240.20 | | 372.90 | 55.25% | 373.00 | 55.29% |
| 35,000 | 279.70 | | 432.90 | 54.77% | 433.00 | 54.81% |
| 40,000 | 319.20 | | 492.90 | 54.42% | 493.00 | 54.45% |
| 45,000 | 358.70 | | 552.90 | 54.14% | 553.00 | 54.17% |
| 50,000 | 398.20 | | 612.90 | 53.92% | 613.00 | 53.94% |
| 75,000 | 595.70 | | 912.90 | 53.25% | 913.00 | 53.27% |
| 100,000 | 793.20 | | 1,212.90 | 52.91% | 1,213.00 | 52.92% |